2017
Annual Report

Dumaguete City Development Bank, Inc.

Dumaguete Bank

" Your responsible partner for growth "

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ABOUT DCDB

Dumaguete City Development Bank, Inc. is a simple thrift bank with the objective of being one of the stronger thrift lenders in the Visayas-Mindanao region.

Established in 1980, DCDB is dedicated to the service of God, families and the business community. Existed by its commitment to be *"a responsible partner for growth"*, we are customer-oriented, prioritizing client satisfaction at all times, and helping the Filipino entrepreneurs achieve growth and stability. With the main credit concentration in agriculture, it is consistent with the nature of its operation as thrift bank whose main clientele are individual entrepreneurs whose business mostly reside in the agriculture industry.

DCDB. The thrift bank where your growth matters.

ABOUT DCDB

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

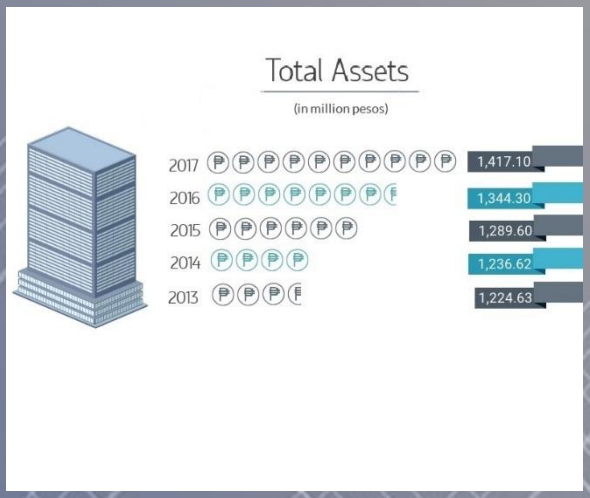
To our OFFICERS and STAFF, a commitment to provide opportunities for self-actualization; continuous personal and professional development.

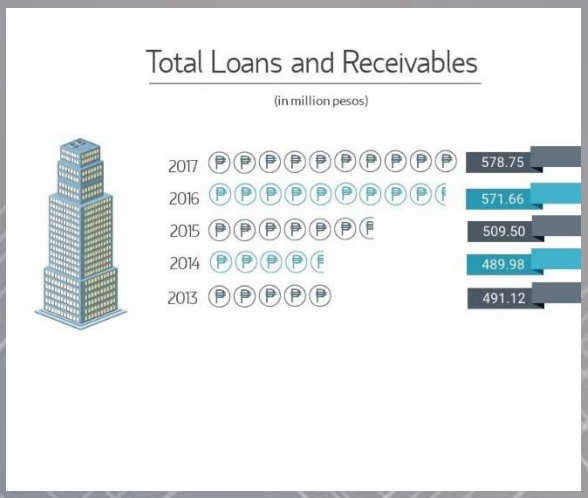
To our SHAREHOLDERS, a commensurate return on investment.

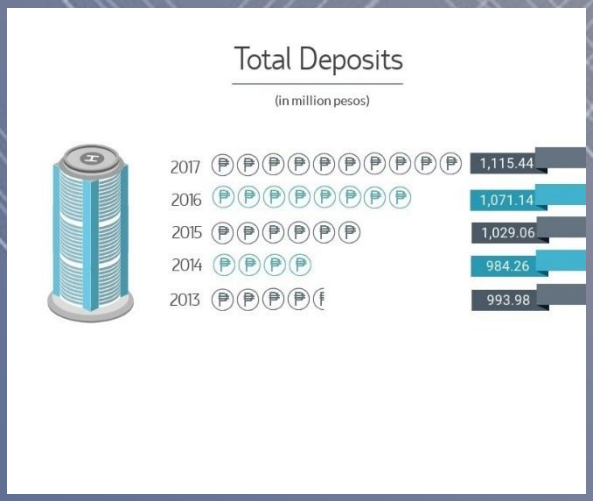
To our CLIENTS, a commitment to provide the highest standard of public trust; to provide quality and reliable service with a heart and smile; and to offer competitive and attractive interest rates.

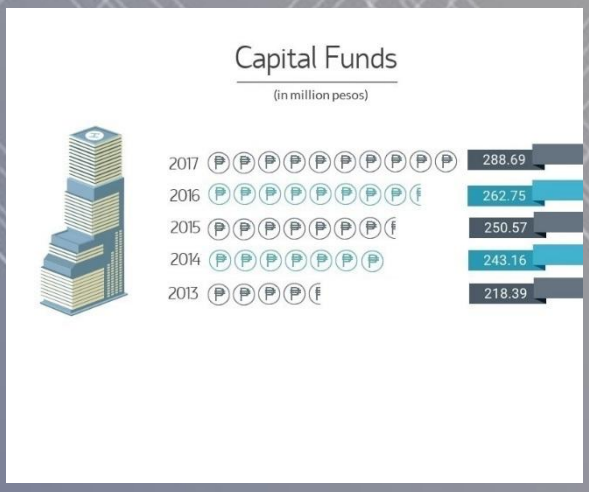
To the LOCAL COMMUNITY, to be a responsible partner in the countryside economic growth and development, particularly in the Visayas-Mindanao Region.

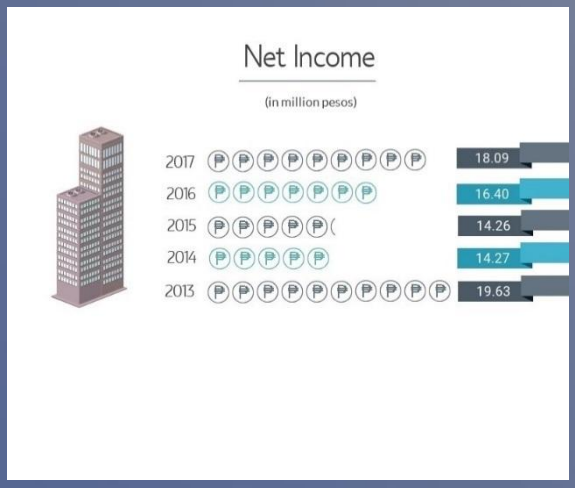
FINANCIAL HIGHLIGHTS

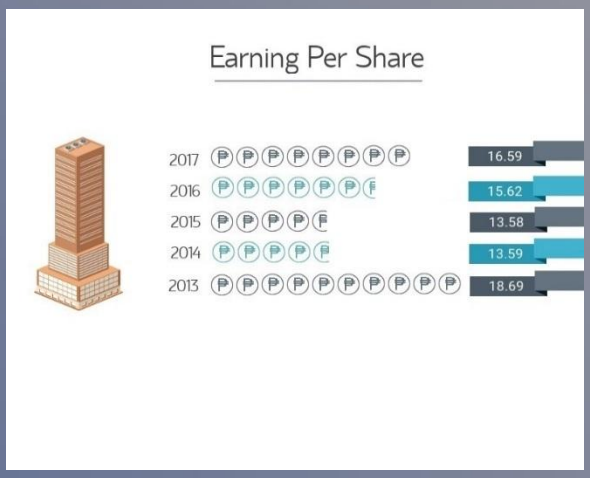












STATEMENT OF CONDITION

	2017	2016	2015	2014	2013
ASSETS		(amounts in thousand pesos)			
Liquid Assets					
Cash and Other Cash Items	17,822	17,741	13,424	12,457	11,043
Due from Bangko Sentral ng Pilipinas	99,807	103,348	110,116	94,718	62,538
Due from Other Banks	356,757	331,331	305,880	292,949	326,933
FA At Fair Value Through Profit or Loss	6,678	6,593	6,498	6,428	6,377
Available-for-Sale Securities	221,358	176,016	204,440	213,313	187,050
Other Investment (HTM)	55,162	52,068	52,540	44,741	44,219
Loans and Receivables					
Gross Loans	566,690	570,238	509,005	482,180	482,457
Other Receivables	32,132	21,123	20,284	25,110	26,796
Allowance for Probable Losses	(20,071)	(19,706)	(19,789)	(17,307)	(18,131)
Investment Properties	19,066	29,392	30,415	27,223	36,291
Bank Premises, Furniture, Fixtures & Equip.	38,390	34,354	36,326	38,825	38,860
Other Assets	23,305	21,801	20,459	15,980	20,195
TOTAL ASSETS	1,417,096	1,344,299	1,289,598	1,236,617	1,224,628
LIABILITIES					
Deposit Liabilities					
Savings	750,340	655,745	635,670	598,639	549,303
Demand	255,065	286,577	243,293	231,053	274,902
Time	110,035	128,816	150,095	154,468	169,772
Other Liabilties	12,963	10,412	9,975	9,293	12,264
CAPITAL	288,693	262,749	250,565	243,164	218,387
TOTAL LIABILITIES & CAPITAL	1,417,096	1,344,299	1,289,598	1,236,617	1,224,628

STATEMENT OF INCOME

	2017	2016	2015	2014	2013
		(amounts in thousand pesos)			
Interest income	75,713	70,554	69,611	71,077	71,792
Interest expense	12,114	14,927	16,794	17,038	19,279
Net Interest Income	63,599	55,627	52,817	54,039	52,513
Other Income	17,815	18,407	12,799	17,127	18,422
Other Expense	56,019	50,676	47,629	50,495	45,747
Profit Before Tax	25,395	23,358	17,987	20,671	25,188
Tax Expense	7,309	6,957	3,729	6,402	5,560
Net Profit	18,086	16,401	14,258	14,268	19,627
Earnings Per Share	16.59	15.62	13.58	13.59	18.69

Selected Ratios:					
Return on Equity	6.51%	6.39%	5.45%	6.18%	9.08%
Return on Assets	1.30%	1.25%	1.13%	1.16%	1.72%
Net Interest Margin	5.22%	4.69%	4.97%	5.14%	5.52%
Capital Adequacy Ratio	26.91%	21.81%	25.73%	26.38%	23.79%

FINANCIAL CONDITION

The Bank closed the year 2017 with an increase on the total resources by P72.8 million or 5.42 percent. That could be accounted by the increase in due from other banks by 7.67 percent, loans and receivables by 1.24 percent, investment securities by 20.68 percent, and fixed assets by 11.75 percent as a result of merger with Rural Bank of Sibulan. Despite the tight competition with other big banks, DCDB continued to strive to be one of the strongest thrift lenders in the Visayas-Mindanao region.

Investment properties decreased by P10.32 million or 35.15 percent pertaining to the sale of asset acquired during the year.

Total liabilities at year-end increased by P46.85 million or 4.33 percent. The growth was mainly driven by the increase on Deposit Liabilities.

Total capital funds or net worth ended the year at P288.70 million, up by 9.87 percent compared to the 2016 balance of P262.75 million.

RESULTS OF OPERATION

With the collective effort to increase the net profit, the year 2017 ended P18.08 million up by 10.27 percent mainly from the interest income. That consists of loans and receivables, investment securities and deposits with other banks.

Other income decreased by 3.22 percent. In 2016, there was a recognized gain on sale of AFS financial assets amounted to P4.41M while none were sold in 2017. On the other hand, interest expense decreased by 18.84 percent relative to the decline on high cost deposits and reduction of interest rates.

Operating costs for the year increased by 10.54 percent consisting mainly on the increase of the following: compensation and employee benefits by 8.64 percent, taxes and licenses by 5.97 percent and other administrative expense by 16.93 percent.

Return on Average Capital Funds and Return on Average Assets registered at 6.51 percent and 1.30 percent respectively.

THE PRESIDENT'S MESSAGE

Taming the Beast

In looking beyond the medium-term, the Bank's 2017 Strategic Plan took into consideration these factors: our competition, our consumers' bargaining power, the threat of substitute or new product lines, and developments in Information Technology. Examining these factors enabled us to view our landscape with more clarity, and in doing so, we recognized that breaking barriers that prevented our exploration of new opportunities was essential to moving ahead, or at the very least, remaining competitive in this industry.

Venturing into new possibilities to expand our portfolio of products and services resulted in a number of projects that were initiated in the past year. We recently made available loan products such as the SSS/GSIS Pensioners' Salary Loan and we are now in the process of developing a microfinancing facility through our Sibulan branch office that is forecast to eventually be instituted Bank-wide. In terms of our information technology capability, we are in the process of upgrading our system, streamlining much of our banking processes and thus facilitating a more efficient and prompt delivery of our services. Through our efforts to capitalize on the rapid developments in IT, we have enhanced point-of-sale service with our Bankcard now containing the EMV (EuroPay, MasterCard, and Visa) feature that also enforces the security of the cardholder from the risk of card cloning.

Our industry is filled with challenges. Not only do we deal with competition from institutions such as ours, with similar objectives and target markets, there are challenges coming from the presence of other non-banking financial institutions. There are the inevitable changes to our economy that affect our industry. There are new issuances from regulatory agencies that call for changes to our processes. And there is the fickle nature of our natural environment, which has affected sugarcane production in our part of the country for some time now.

Each year, we focus on determining the most sensible course of action to achieve the goals we set for ourselves by establishing a strategic plan. However, very rarely does a strategic plan accomplish exactly what its stated goals are. This may be due to these challenges, changes – both economic and environmental – and regulatory agencies' various requirements. However, we do come closer to achieving those goals as opposed to not having a well-considered plan at all. This can be said of our net income projections for this year. While we did not quite reach that particular goal, we achieved very positive results.

This is "the nature of the beast" – the nature of our business – as I mentioned in an earlier message. It has been said that it is not the times when one falters or falls that is the measure of character or success, but the times when one gets up, dusts himself off and carries on.

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

The Board of Directors, Management, employees and shareholders of Dumaguete City Development Bank, Inc. (DCDB/Bank) believe that sound and effective corporate governance is the cornerstone of DCDB's strength and long-term existence. It 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.

CORPORATE GOVERNANCE MANUAL

The Board of Directors and Management hereby commit themselves to the principles and practices contained in this Manual and acknowledge that the same will guide them in pursuing their corporate goals. They shall also undertake every effort necessary to create the necessary awareness of these principles and practices within the organization in order to ensure proper internalization by every member of the organization.

This Manual of Corporate Governance supplements and compliments the DCDB Articles of Incorporation and By-Laws by setting forth principles of good and transparent governance.

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.

The Chairman of the Board of Directors provides leadership in the Board. He shall ensure effective functioning of the Board, including maintaining a relationship of trust with Board members. He shall be responsible also to ensure a sound decision-making process and should

encourage and promote critical discussions and ensure that dissenting views can be expressed and discussed within the decision-making process.

To establish an atmosphere of independence in the Board, at least one third (1/3) but not less than two members of the Board of Directors shall be independent directors. They are to intermediate in cases where there would be conflict of interest in the Management.

The names of the Directors serving as of December 31, 2017 and their biographical details can be found on the page 112-114.

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 one third (1/3) 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.

POLICY ON MULTIPLE BOARD SEATS

A director shall exercise due discretion in accepting and holding directorships outside of DCDB. A director may hold any number of directorships outside of DCDB provided that, in the director's opinion, these other positions do not detract from the director's capacity to diligently perform his duties as a director of DCDB, and provided further that this interlocking directorship is approved and/or confirmed by the Monetary Board of the BSP.

BOARD MEETINGS AND QUORUM REQUIREMENTS

- Members of the Board should attend regular and special meetings of the Board in person or via teleconference or videoconference or by any other technological means allowed by law;
- An independent director shall, as far as possible, be in attendance. However, the absence of an independent director may not affect the quorum requirements if he is duly notified of the meeting but notwithstanding such notice fails to attend.

For the year 2017, DCDB Board had 12 meetings, including the organizational meeting regularly held after the Annual Stockholder's meeting:

Board	Name	No. of Shares	% to Total Outstanding Shares	Board Meetings	%
Chairman/President	Julio O. Sy Sr.	44	0.0040%	10/12	83%
Vice-Chairman	Gregorio L. Uymatiao Jr.	16,002	1.4500%	12/12	100%
Treasurer	Gilbert Paul L. Uymatiao	19,725	1.4500%	12/12	100%
Director	Susano O. Sy[a]	2	0.0002%	3/12	25%
Director	Nicolas S. Ramas Uypitching	23,710	2.1484%	11/12	92%
Director	Ruben D. Almendras	8,276	0.7499%	12/12	100%
Independent	Rodrigo G. Diaz	4,484	0.4063%	12/12	100%
Director	Danford S. Sy	23,670	2.1448%	11/12	92%
Independent	Maria Lorna T. Labitan[b]	1	0.0001%	7/12	58%
Independent	Julie T. Tan	2	0.0002%	10/12	83%
Director	Edward Y.R. Sung	40,858	3.7022%	11/12	92%
Director	Lawrence S. Limkaichong III[c]	10	0.0009%	3/12	25%

[a]Died on May 2017

[b]Sick Leave from July to December

[c]Elected on August 2017

BOARD-LEVEL COMMITTEES

Executive Committee

Director	Meetings	%
Gregorio L. Uymatiao Jr.	11/12	92%
Nicolas S. Ramas Uypitching	10/12	83%
Edward Y.R. Sung	12/12	100%
Danford S. Sy*	1/12	8%
Gilbert Paul L. Uymatiao*	2/12	17%

*Alternate member

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.

Director	Meetings	%
Julie T. Tan*	7/9	78%
Rodrigo G. Diaz*	8/9	89%
Maria Lorna T. Labitan*[a]	5/9	55%

*Independent Director

[a]Sick Leave from July to December

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

Director	Meetings	%
Danford S. Sy	9/12	75%
Gilbert Paul L. Uymatiao	11/12	92%
Edward Y.R. Sung	11/12	92%
Rodrigo G. Diaz*	6/12	50%

*No longer a member as of June 2017

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.

Assets and 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.

Director	Meetings	%
Gregorio L. Uymatiao Jr.	12/12	100%
Edward Y.R. Sung	11/12	92%
Lawrence S. Limkaichong III*	5/12	42%
Rodrigo G. Diaz**	5/12	42%

*Elected on August 2017

**No longer a member as of June 2017

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.

Director	Meetings	%
Danford S. Sy	2/2	100%
Gilbert Paul L. Uymatiao	2/2	100%
Edward Y.R. Sung	2/2	100%

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: (i) 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; (ii) 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; (iii) 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 three (3) members, one alternate member all of which shall be members of the Board of Directors.

Director	Meetings	%
Danford S. Sy	7/7	100%
Gilbert Paul L. Uymatiao	5/7	71%
Nicolas S. Ramas Uypitching	5/7	71%

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.

BOARD EVALUATION SYSTEM

The Board conducted a periodic self-performance evaluation of the individual Directors, Committees, Advisors and Senior Management to determine the level of compliance with principles and practices on good governance and identify areas for improvement. The Corporate Unit summarizes the results and the Compliance Office reports it to the Board.

Based on the 2017 results, the Bank has complied with the principles and practices contained in Corporate Governance Manual.

CONTINUING EDUCATION

Directors are encouraged to continuously enrich their knowledge, skills and understanding of the Banking industry as a whole.

In 2017, some of the Directors attended the in-house training on AMLA conducted by Chief Compliance Officer of the Bank. They were continuously informed of the trainings and seminars conducted by Institute of Corporate Directors and BAIPHIL.

For first-time Directors, they must attend a seminar on Corporate Governance for Directors.

RETIREMENT AND SUCCESSION

Succession in the BOD is to be filled-up by family members of directors or their nominees who possess the required skills and extensive business background and those that qualify the requirements of the BSP. The names of nominees are submitted and selection process begins (votation). When a decision is made by the BOD through Board Resolutions, it is then submitted to the BSP for final approval. The independent directors' seats are occupied by experienced and seasoned bankers sourced from the market, and approved by the BOD and confirmed by the BSP.

COMPENSATION POLICY

The Board of Directors shall determine a level of remuneration and/or benefits for Directors that shall be sufficient to attract and retain directors and compensate them for attendance at meetings of the Board and Board committees, and performance of numerous responsibilities and undertaking certain risks as a Board member. The compensation which may be in various forms shall be fixed by way of a resolution of the Board of Directors. The Board of Directors may provide that only non-executive directors shall be entitled to such compensation.

The Bank pays salaries to employees commensurate to the qualifications, position and level of responsibility with reference to the approved salary scale. For Senior Management, the Board shall determine based on their qualifications, experience, position and level of responsibility.

POLICY ON RELATED PARTY TRANSACTIONS

DCDB recognizes that transactions between and among related parties create financial, commercial and economic benefits. The Bank's board of directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

The Bank shall exercise appropriate oversight and implement control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients and other stakeholders.

The Director inhibits his right in the discussion, deliberation and approval of a transaction, where he is a related party, to prevent conflict of interest.

Materiality threshold for RPTs shall be set at an amount in cash or other equivalent of monetary instrument involving a total amount in excess of Five Hundred Thousand Pesos (P500,000.00) within one banking day for purposes of reporting RPTs to the BSP. All RPTs, however, shall be reviewed and evaluated by the Audit Committee regardless of amounts and shall be endorsed to the Board of Directors of the bank for approval.

INTERNAL AUDIT

Effective internal controls are the foundation of safe and sound banking. Having a properly designed and consistently enforced system of operational and financial internal control helps a bank's board of directors and management safeguard the bank's resources, produce reliable financial reports, and comply with laws and regulations. The bank's Board of Directors is responsible in establishing and maintaining an effective internal control system. The senior management also verifies the integrity of bank's internal control.

The internal audit function is independently exercised by the Internal Audit Unit, it is established by the Board of Directors and its responsibilities are defined by the Audit Committee as part of its oversight function. Internal audit provides an objective, independent review of bank activities, internal controls, and management information systems to help the board and management monitor and evaluate internal control adequacy and effectiveness.

The compliance function is executed by the Compliance Office; it assists the Board in the discharge of its governance function to protect the bank's reputation and the stockholders'

interest and ensures the Bank's safety and soundness. In place is a compliance system that is designed specifically to identify and mitigate risks.

The Compliance Office is headed by the Chief Compliance Officer who reports functionally to the Board of Directors. Its function is supported by a duly approved Compliance Manual that defines the duties and responsibilities, mandate, independence and manner on which compliance is implemented.

DIVIDENDS

Dividends are declared out of the unappropriated retained earnings of the Bank. The Board of Directors shall determine the percentage in accordance with the provisions of the law and regulations by BSP and SEC.

For the year 2017, the Bank did not declare any dividends in compliance with the 5-year Capital Build-up Program of the Bank submitted to BSP wherein no declaration of cash dividends shall be made to ensure capital preservation.

CONSUMER PROTECTION

DCDB, Inc. has developed a Consumer Protection Risk Management program which enumerated the basic principles and ethical business practices that govern the conduct of the Bank in dealing with its customers/consumers. It provides standards of consumer protection in the areas of: disclosure and transparency, protection of client information, fair treatment, effective recourse and financial education.

The Board of Directors is responsible for establishing an atmosphere of impartial, unprejudiced and principled business relations by establishing standards for consumer protection which are implanted in the Bank's business activities. It is the Board and Senior Management's task to formulate consumer protection policies and create an efficient management mechanism in the implementation and compliance of these policies. The Board is tasked to check on and supervise the work of Senior Management in the execution of these guidelines. The Board may also assign such auxiliary duties it considers relevant for conformance to these guidelines. Senior Management, in turn, is accountable for the implementation, monitoring and the processes which ascertain that these policies are observed.

A regular evaluation of the Bank's mechanisms for consumer protection which includes a Consumer Protection Risk Management System (CPRMS) is conducted by both the Board and Senior Management to ascertain its efficiency. It is essential to determine how relevant information is communicated and that the built-in review process in the CPRMS allows sufficient supervision. An assessment of the system's efficiency is aided by the timely delivery of

information concerning the CPRMS to the Board and Senior Management. An effective CPRMS also relies on resources which support the program. The Board and Senior Management ensures that adequate resources are provided to the program to assure its continued efficiency and that remedial or corrective measures will be promptly introduced for any perceived shortcoming in the program. A successfully run CPRMS relies on the support from the Board and Senior Management regarding the latitude and influence given to the personnel administering and implementing it.

There are five benchmarks the Bank has considered in establishing its consumer protection programs that are the foundation of its consumer protection policies and are explained in the Bank's Consumer Protection Manual: disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education awareness.

The CPRMS ensures conformity to the rules, laws and regulations of consumer protection by provident the Bank a mechanism for observing, quantifying, and managing intrinsic consumer protection risks. The CPRMS encompasses risks to both the client and the Bank by focusing on and providing against known and perceived risks to the Bank and connected financial injury to its clients.

There are six components involved in the CPRMS: Consumer Protection Compliance Program, Consumer Protection Audit Program, Consumer Protection Training Program, Consumer Protection Policies and Procedures, Corporate Structure of the Consumer Assistance Group, Code of Conduct.

DUMAGUETE CITY DEVELOPMENT BANK, INC. is committed to provide quality services to its clients. It recognizes every right of a consumer of financial products and services. For this reason the Bank aims to provide every client with the assistance the client needs.

Consumer Assistance Channels

The Bank will establish conduits through which clients may submit their concerns. These will include letters, e-mail, telephone, fax, personal visits, and a centralized web-portal. To augment these channels the Bank shall establish a customer hotline staffed by customer assistance personnel and ascertain that clients know where and how to submit their issues. The Bank shall also determine other methods of resolution regarding client issues.

Consumer Assistance Process and Timelines

The Bank will establish timetables within which to recognize, process and resolve, and communicate resolutions of its clients' issues.

On simple issues, the Bank shall recognize the issue/s within two (2) working days of receipt. Assessment, examination, and resolution/corrective action shall be within seven (7) days; and informing the client of the resolution shall be within nine (9) days.

Acknowledgement of issues/grievances of a more complex or complicated nature shall also be within two (2) days. However, assessment, examination, and resolution/corrective action may be within 45 days, and notice to the client of the measures taken within 47 days.

Certain requisites to be followed during this process shall include the documentation of: the customer's full name, signature and contact information; nature of the issue/grievance; the customer's requested settlement; the name of personnel managing the issue.

Personnel managing the issue in question shall adequately describe the assistance process and its timetable, give assurances that the complaint or issue is being dealt with, and if necessary, request any additional documentation. The customer shall also be kept informed of the actions being taken for the settlement of the issue.

A uniform process of evaluation and examination of issues and settlement alternatives will be adapted by the Bank. Regarding any delays in the settlement of complicated issues, the Bank shall give adequate reason for the delay; the necessity for the extension (not exceeding 45 days); and the date the complainant may expect the resolution of the issue. The Bank's final response shall be conveyed to the client in clear and simple language, including other possible solutions and having recourse to the BSP Consumer Assistance Mechanism or the courts.

At the latest, the Bank will respond to any *inquiries* by the next business day.

Confidentiality

In accordance with law and the Bank's existing policy on customer confidentiality, the Bank shall not reveal any client information at any stage of the issue/complaint to third parties *except* if required by the Bank's investigation.

Conflict of Interest

The Bank guarantees that personnel managing the issue or grievance are not directly or indirectly involved in the issue which is the subject of the complaint.

Consumer Feedback

Depending on the customer, the Bank will request client reaction on the following: overall satisfaction (or dissatisfaction); processes or personnel needing improvement; suggestions for improvement.

Complaints Recording/Data Management

The Bank and its branches shall archive grievances/complaints and requests received, including any supporting documentation for a period of two (2) years from settlement date. These records shall include: complainant's name; nature of complaint which may include issues related to such services as deposits, remittances, administrative and other issues; name of personnel directly managing the complaint and the officer overseeing its resolution; date of receipt of the complaint; actions taken; date of settlements/resolutions provided; reasons for any delays in arriving at resolutions; any other relevant information (i.e., phone calls made/received).

A record of all grievances/complaints received by the Bank or its branches, and a database enabling the tracking and trending of complaints received, and potential problems and risks shall be maintained by the client assistance group/head customer assistance officer.

Risk Assessment Strategies

In managing consumer complaints, and consistent with its Consumer Protection Risk Management System policies, the Bank shall position mechanisms which recognize and resolve any chronic problems affecting the entire system and in so doing, locate shortcomings in the Banks processes and procedures.

Such strategies will include: analyses of complaints and requests; analyses of the causes; examination of whether such shortcomings/weaknesses affect other services; rectifying these issues with consideration to attendant costs and resources.

Complaints Reporting

The client assistance officers of branch offices shall submit a monthly complaints report to the head client assistance officer of the Bank. The Board and Senior Management shall receive a monthly report from the head of the client assistance group. This report shall contain, together with any other relevant data: types of complaints received and their recurrence; aging (amount of time it takes for resolution) of complaints; reasons for variations in required resolution/settlement periods; description of actions taken to resolve/settle complaints.

Other data contained in the report shall include recommendations on procedures meant to prevent recurring issues and suggestions on improving the management of said issues. A quarterly independent review performed by the Bank's Compliance and Internal Audit Unit on the complaint report will be submitted to the Board. Data on complaints/requests will be contained in the Bank's Annual Report.

Interface with BSP

The Bank shall utilize all internal available resolutions to deal with client issues/complaints/requests, and in line with the BSP Consumer Assistance Mechanism, shall have recourse to assistance from the BSP-FCAG.

Outsourcing of Handling Consumer Concerns

Should the Bank outsource the management of the consumer assistance process, the Bank shall be accountable for: exercising due diligence in selecting the outsourced entity; taking full responsibility for the performance of the outsourced entity; following all rules, laws and regulations governing client assistance activities and services conducted by the outsourced entity in the Bank's behalf; and the management and review of the performance by the outsourced entity of the outsourced client assistance service.

Accountability and Rewards

A rewards system may be put in place by the Bank for the exceptional performance of personnel tasked with handling the client assistance mechanism. Such recognition shall be based on the effectiveness and efficiency of managing client complaints, issues and requests. This recognition system will assist in the fair, ethical and responsible business conduct of the personnel responsible for customer relations and assistance.

Consumer Assistance to Persons with Disabilities (PWDs) and non-English Speakers

Fair and ethical treatment of clients naturally extends to those who are differently-abled. To guarantee that CAMS is fully understood, this policy encompasses those with learning difficulties; hearing and visually impaired persons; and non-English speakers.

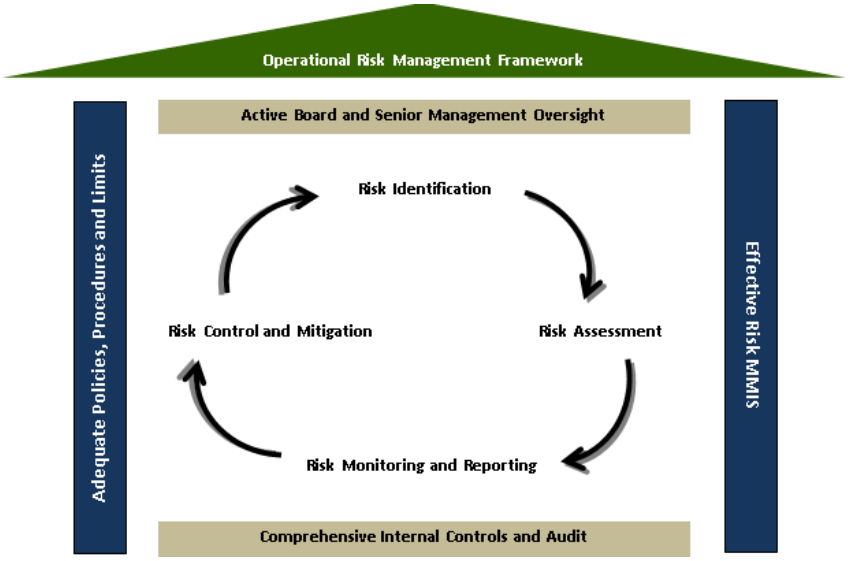
Corporate Structure of the Consumer Assistance Group

Formulating the Bank's programs on consumer protection, determining necessary training needs and program logistics will be tasked to the DCDB Consumer Assistance Group. The corporate structure of this independent body will be composed of a Consumer Protection Head (Branch Head), Assistant Consumer Protection Head (Loan Officer), and four Consumer Protection Officers (Cashiers) from the Bank's branches.

RISK MANAGEMENT

The Bank recognizes that operational risk is inherent in all activities, products and services and often comes with other types of risks (e.g., credit, liquidity and market risks). As part of its risk management system, a suitable ORM framework tasked with the identification, evaluation, monitoring, control and mitigation of operational risk was established.

The illustration shows the framework of the ORM, corresponding governance components and requirements.



Risk Identification and Assessment

The allocation of resources for risk management is more efficient with a clear understanding of the Bank's risk profile. This requirement considers internal factors like changes in organizational structure and type of business activities, personnel and personnel turnover; and external factors such as political, economic and legal factors, environmental (climate) changes and developments in technology, and changes in the industry's business environment. Loss events classified under these factors and corresponding examples are:

- Internal fraud (employee theft, intentional misrepresentation of positions) and external fraud (forgery, robbery, check kiting, damages from computer hacking);
- Employee practices and workplace safety (health and safety rules violations, workers' compensation claims, discrimination claims, general liability);
- Client, products and business practices (fiduciary breaches, money laundering, sale of unauthorized products, misuse of confidential customer information);
- Damage to physical assets (natural calamities, arson, vandalism, terrorism);
- Business stoppages and systems failures (hardware/software failures, power outages, communications equipment problems);
- Failures in execution, delivery and process management (data entry errors, insufficient documentation, unauthorized access of customer accounts, vendor controversies, non-client counterparty misperformance).

Mechanisms/tools for pinpointing and evaluating operational risk must be commensurate to the scope of operations and risk profile of the Bank:

1. Audit results/supervisory issues brought up in the BSP Report of Examination (ROE); internal audit reports on internal control, risk management and organizational structures and policies. External audit focuses on control weaknesses and the Bank's exposure to material inaccuracies/misstatements in financial statements. The ROE points out shortcomings in risk management systems and procedures and compliance issues on relevant rules and regulations which may affect the Bank.
2. In evaluating losses due to operational risk and the efficiency of the Bank's internal controls, these factors are considered:
   - Asset management
   - Payments/Settlements
   - Corporate finance
   - Retail/Commercial banking
   - Agency services
   - Retail brokerage

   Losses due to credit and market risk may relate to operational issues. Data from these events provides a more complete view of the Bank's exposure to operational risk.

3. The Bank shall utilize Risk Self-Assessment (RSA) in its evaluation of the mechanisms used by the Bank in dealing with the potential effects of possible risks and weaknesses. Risk Control Self-Assessment (RCSA) evaluates the intrinsic risk – or the risk *before* controls are considered – the efficiency of the controls and the residual – or remaining – risk *after* controls are considered.
4. The Bank shall also utilize Key Risk Indicators (KRI) to examine factors that propel risk-related exposures which may provide early detection of increased risk and preventative measures. Key Performance Indicators (KPI) provides information into the position or condition of operational processes and could indicate flaws, failures or possible losses.
5. Process risk mapping may be defined as a matrix or environment (*X* and *Y* axis)depicting a select number of a company's risks in order to illustrate the significance (impact) of risk on one axis (*Y*), and the likelihood or frequency of the event on the other axis (*X*). This mechanism can indicate whether improvements can be made to a current process by determining areas of risk and risk interdependencies, and limitations in risk management controls.
6. Scenario analysis is a process of analyzing possible future events by considering alternative possible outcomes (sometimes called "alternative worlds"). Thus, the scenario

analysis, which is a main method of projections, does not try to show one exact picture of the future. By obtaining the estimation of business line and risk managers, scenario analysis is an effective tool when contemplating probable sources of operational risk and additional risk management controls or responses.

7. A more detailed view of the Bank's operational risk profile may be achieved by a comparison of the results from different evaluation tools (comparative analysis).

Risk Monitoring and Reporting

Consistent with policies on the management and control of an ideal credit risk environment, the Bank shall have a risk structure to continuously observe and scrutinize its operational risk profile and exposures to loss. Both qualitative and quantitative assessments of exposure to all types of operational risk will be considered. The system shall evaluate the merits and fitness of all remedial strategies and have in place efficient controls to isolate and confront situations which may escalate to significant issues.

1. Corresponding to its policies on creating an ideal credit risk environment, the Bank makes every effort to maintain an ideal operational risk environment through the establishment of an effective structure for mitigating operational risk. Basic factors to consider in this structure would be the capacity to deal with changes in the operational risk environment and to communicate all relevant data (findings from all monitoring efforts, internal and external audit results on risk management, compliance findings) to the Board and senior Bank management for appropriate action.
2. The timely receipt of regular reports on operational risk is essential to enable the Board to view and comprehend the Bank's overall operational risk profile and assist supervision and control.
3. Reports should contain material relevant to decision-making. These should include internal financial, operational and compliance data, and meaningful external market information which show –
    - Actual and potential operational risks indicated in the Bank's KRI, audit and compliance reports, and modifications in the Bank's risk and control assessments;
    - Identified areas of concern and proposed corrective remedies;
    - Risk occurrences/losses;
    - Efficiency of corrective measures taken;
    - Authorized and unauthorized departures from risk policies;
    - Potential or actual violations of predefined limits for operational exposures/losses.
4. Report analyses should be aimed at improving risk management policies and procedures. These reports should be regularly verified for accuracy and timeliness to maintain the

effectivity of the reports. Precise and accurate information is indicative of an efficient and germane reporting mechanism.

5. Loss data gathered from the reports should be archived to facilitate tracking, rate of recurrence and acuteness of loss events.

Risk Control and Mitigation

An effective and efficient operational risk management strategy is possible only with stout control systems that enforce procedures in managing and/or alleviating risk. However, when controls are insufficient or risk is not an option, the Bank may opt to mitigate risk through insurance.

The Board decides the maximum acceptable risk exposures and risk appetite of the Bank and is responsible for conducting an annual review of the efficiency of both its risk management policies and insurance program.

The Bank is aware that a risk transfer option such as insurance serves only as a complement to an efficient and solid operational risk management program and should evaluate the degree to which these transfer options reduce risk.

The Operational Risk Management *Function* (ORMF) is established to cover all areas which operational risk cuts across.

The Role of the BOD

In extending its policies on credit risk to encompass Bank-wide operational risk management, it is essential that the Board is aware of and understands the complexity of major and operational risks since the ORM framework covers all business lines and functions of the Bank, including outsourced services and clients of services provided. This includes recognizing the effects of both financial and non-financial operational risks the Bank may be exposed to.

In approving the operational risk management structure of the Bank the Board must consider *all* business lines and Bank functions coupled with an established working definition of operational risk which is in place and consistent with personnel roles and responsibilities, feedback procedures, authority and reporting structures, guidelines and mechanisms for operational risk management.

The Role of Senior Management

Senior Bank management is responsible for the discharge and observance of the operational risk management framework. Through this structure senior management should formulate precise and detailed guidelines and procedures for all Bank activities including those which are outsourced/insourced to external entities. Policies are to be clearly documented, BOD-approved and disseminated throughout the Bank.

Senior management is responsible for disseminating operational risk management duties and responsibilities to Bank personnel at all levels and that roles in the risk management structure are clearly understood. To accomplish this, lines of authority, responsibility and reporting procedures must be established to sustain accountability and resources made available for the efficient management of operational risk.

This body is also charged with establishing monitoring systems to identify, track, report and if necessary inform higher authority to ascertain resolution to breaches in operational risk tolerances and determining the rate of risk management reporting given the degree and type of risk involved and the operational environment of the Bank.

Senior management evaluates the suitability of the operational risk management process considering shifts in the business environment and the resultant risks from business proceedings.

The responsibility of guaranteeing that resources dedicated to operational risk management (personnel, technical support) are manned by qualified and experienced personnel also fall on this unit. Senior management also confirms that the personnel monitoring compliance with risk policies – Compliance and Internal Audit Units – are separate from the units under review and qualified for the diverse operational areas.

Additionally, senior management is tasked with creating guidelines and procedures for efficient business continuity management.

The Role of Business Units

On a daily basis, business line management (the administration of activities which contribute directly to the output of products and services) and its personnel are responsible for pinpointing, supervising and reporting the inherent risks of the products and services, processes and systems to which they have been assigned. These duties call for insuring that internal controls within these units are consistent with Bank policies supporting operational risk management and guidelines and procedures specific to business lines are established to manage operational risk for all Bank products and services; an operational risk management structure within the business line consistent with the line's scope and complexity, and its operational risk profile; Board-approved risk reducing mechanisms are formulated and executed, and periodically reviewed to assure risk management is within approved tolerances. Issues of concern must be promptly dealt with; prompt and effective communication of loss events to the ORMF for monitoring and reporting, and the routine reporting to senior management/BOD.

The Role of Compliance

The Bank's Compliance Office is responsible for the independent evaluation of observance of laws, rules and regulations, and internal policies; pinpointing areas which may pose as potential risks due to insufficient or unsuccessful processes, systems or personnel. Potential personnel risks include the conduct and behavior of Bank personnel, its officers, and Board resulting in or leading to fraud or other business difficulties. The role of Compliance is to evaluate which unit's operational risk exposures influence the standing of the Bank. Compliance recommends and assists management in the proper execution of applicable laws, rules and regulations, as well as the Bank's internal policies.

The Role of Internal Audit

The independent evaluation of the operational risk management structure and the execution of its policies are conducted by internal audit. The BOD – directly or indirectly – makes certain that the coverage and rate of audit is suitable to risk exposures and any issues pinpointed by the audit are promptly dealt with or escalated to the Board.

ANTI-MONEY LAUNDERING

The Bank's Money Laundering and Terrorist Financing Prevention Program (MLPP) serves as the comprehensive operating guidelines for use of the Bank's Directors, Senior Management, and all responsible officers and employees in implementing rules and regulations on the prevention of money laundering and terrorist financing. This serves also as a guide for the implementation of the Bank's policies and procedures relative to anti-money laundering complemented by the bank's Manuals of Operations.

With the Bank's commitment to ensure sound corporate governance, money laundering and terrorist financing risks are effectively managed.

Punongbayan & Araullo

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Dumaguete City Development Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of profit or loss, statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017 and 2016, and its financial performance and its cash flows for 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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, 2017 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. Llovido**
Partner

CPA Reg. No. 0108392
TIN 221-750-103
PTR No. 6616012, January 3, 2018, 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, 2018

DUMAGUETE CITY DEVELOPMENT BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
R E S O U R C E S			
CASH AND OTHER CASH ITEMS	8	**P 17,821,666**	P 17,741,171
DUE FROM BANGKO SENTRAL NG PILIPINAS	8, 9	**99,806,581**	103,348,339
DUE FROM OTHER BANKS	8, 10	**356,757,288**	331,331,064
INVESTMENT SECURITIES			
At fair value through profit or loss	11	**6,677,828**	6,593,023
Held-to-maturity investments	12	**55,162,304**	52,067,833
Available-for-sale financial assets	13	**221,358,398**	176,015,935
LOANS AND OTHER RECEIVABLES - Net	14	**578,750,694**	571,655,173
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	15	**38,389,974**	34,354,343
NON-CURRENT ASSETS HELD-FOR-SALE - Net	16	**25,770**	32,595
INVESTMENT PROPERTIES - Net	17	**19,040,172**	29,359,498
DEFERRED TAX ASSETS - Net	27	**15,380,405**	13,343,648
EQUITY INVESTMENT IN AN ASSOCIATE	18	-	2,867,660
OTHER RESOURCES - Net	19	**7,924,775**	5,589,205
TOTAL RESOURCES		**P 1,417,095,855**	P 1,344,299,487
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	21	**P 1,115,439,970**	P 1,071,138,656
INCOME TAX PAYABLE		**1,943,349**	2,101,114
OTHER LIABILITIES	22	**11,019,866**	8,310,683
TOTAL LIABILITIES		**1,128,403,185**	1,081,550,453
CAPITAL FUNDS	23	**288,692,670**	262,749,034
TOTAL LIABILITIES AND CAPITAL FUNDS		**P 1,417,095,855**	P 1,344,299,487

See Notes to Financial Statements.

DUMAGUETE CITY DEVELOPMENT BANK, INC.
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
INTEREST INCOME			
Loans and other receivables	14	**P 57,914,443**	P 56,050,386
Investment securities	12, 13	**12,047,061**	9,010,640
Due from other banks	10	**5,752,021**	5,492,968
		75,713,525	70,553,994
INTEREST EXPENSE			
Deposit liabilities	21	**12,113,919**	14,926,780
NET INTEREST INCOME		**63,599,606**	55,627,214
OTHER INCOME (LOSSES)			
Service charges, fees and commission	2	**8,312,471**	5,718,200
Rent	17	**3,019,875**	2,292,339
Gain on sale of non-financial assets	16, 17	**2,663,557**	3,654,101
Gain on remeasurement of investment in associate	18	**2,468,181**	-
Recovery on charged-off assets		**600,000**	479,999
Equity share in net earnings (losses) of an associate	18	**(P 98,428)**	31,728
Fair value gains on financial assets at fair value through profit or loss - net	11	**84,805**	94,706
Gain on sale of available-for-sale financial assets	13	**-**	4,710,981
Miscellaneous income	24	**764,680**	1,425,000
		17,815,141	18,407,054
OTHER EXPENSES			
Compensation and employee benefits	26	**19,980,046**	18,390,847
Taxes and licenses	32	**7,231,456**	6,823,841
Depreciation and amortization	15, 17, 19	**3,656,153**	3,951,741
Other administrative expenses	25	**25,151,699**	21,509,342
		56,019,354	50,675,771
PROFIT BEFORE TAX		**25,395,393**	23,358,497
TAX EXPENSE	27	**7,309,442**	6,957,419
NET PROFIT		**P 18,085,951**	P 16,401,078
BASIC AND DILUTED EARNINGS PER SHARE	29	**P 16.59**	P 15.62

See Notes to Financial Statements.

DUMAGUETE CITY DEVELOPMENT BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
NET PROFIT		**P 18,085,951**	P 16,401,078
OTHER COMPREHENSIVE LOSS			
Item 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	**(7,771,508)**	(3,207,043)
Fair value gains on disposal of AFS financial assets reclassified to profit or loss	13	**-**	(2,040,209)
Tax income	27	**2,331,452**	1,574,176
		(5,440,056)	(3,673,076)
Item that will not be reclassified to profit or loss -			
Gain (loss) on remeasurements of post-employment defined benefit asset	26	**1,538,730**	(776,397)
Tax income (expense)	27	**(461,619)**	232,919
		1,077,111	(543,478)
Other Comprehensive Loss - net of tax		**(4,362,945)**	(4,216,554)
TOTAL COMPREHENSIVE INCOME		**P 13,723,006**	P 12,184,524

See Notes to Financial Statements.

DUMAGUETE CITY DEVELOPMENT BANK, INC.
STATEMENTS OF CHANGES IN CAPITAL FUNDS
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Note	Capital Stock (See Note 23)	Additional Pain-in Capital	Revaluation Reserves (See Note 23)	Retained Earnings (See Note 23) Appropriated	Unappropriated	Total	Capital Funds
Balance at January 1, 2017		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
Issuance of shares during the year	23	5,367,500	6,853,130	-	-	-	-	12,220,630
Additional appropriation	23	-	-	-	40,000,000	(P 40,000,000)	-	-
Total comprehensive income for the year		-	-	(4,362,945)	-	18,085,951	18,085,951	13,723,006
Balance at December 31, 2017		P 110,361,500	P 9,642,480	(P 9,693,909)	P 52,000,000	P 126,382,599	P 178,382,599	P 288,692,670
Balance at January 1, 2016	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
Total comprehensive income for the year		-	-	(4,216,554)	-	16,401,078	16,401,078	12,184,524
Balance at December 31, 2016		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

See Notes to Financial Statements.

DUMAGUETE CITY DEVELOPMENT BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 25,395,393**	P 23,358,497
Adjustments for:			
Interest received		**91,151,547**	81,788,581
Interest income	10, 12, 13, 14	**(P 75,713,525)**	(P 70,553,994)
Interest expense	21	**12,113,919**	14,926,780
Interest paid		**(P 12,065,279)**	(P 14,872,185)
Depreciation and amortization	15, 17, 19	**3,656,153**	3,951,741
Gain on sale of non-financial assets	16, 17	**(P 2,663,557)**	(P 3,654,101)
Gain on remeasurement of investment in an associate	18	**(P 2,468,181)**	-
Equity share in net losses (earnings) of an associate	18	**98,428**	(P 31,728)
Fair value gains on financial assets at fair value through profit or loss	11	**(P 84,805)**	(P 94,706)
Write-off of bank premises, furniture, fixtures and equipment	15	**26,869**	404,971
Gain on sale of available-for-sale financial assets	13	**-**	(P 4,710,981)
Operating profit before working capital changes		**39,446,962**	30,512,875
Increase in loans and other receivables		**(P 10,940,477)**	(P 80,479,494)
Increase in other resources		**(P 705,426)**	(P 1,835,611)
Increase in deposit liabilities		**30,836,798**	42,026,001
Decrease (increase) in other liabilities		**2,482,353**	(P 883,898)
Net cash used in operations		**61,120,210**	(10,660,127)
Cash paid for income taxes		**(P 7,634,131)**	(P 3,681,328)
Net Cash From (Used in) Operating Activities		**53,486,079**	(14,341,455)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of available-for-sale financial assets	13	**(P 53,850,000)**	(P 70,236,758)
Proceeds from sale of non-financial assets	16, 17	**14,948,235**	12,435,250
Acquisitions of held-to-maturity investments	12	**(5,011,931)**	(10,000,000)
Acquisitions of bank premises, furniture, fixtures and equipment	15	**(P 2,653,658)**	(P 1,508,843)
Proceeds from maturity of held-to-maturity investments	12	**2,306,385**	10,472,431
Acquisitions of computer software	19	**(P 150,727)**	(P 633,523)
Proceeds from disposals of available-for-sale financial assets	13	**-**	96,813,195
Net Cash From (Used in) Investing Activities		**(P 44,411,696)**	37,341,752
CASH FLOW FROM FINANCING ACTIVITY			
Additional cash acquired through merger	23	**12,890,578**	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		**21,964,961**	23,000,297
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**17,741,171**	13,424,168
Due from Bangko Sentral ng Pilipinas (BSP)		**103,348,339**	110,116,421
Due from other banks		**331,331,064**	305,879,688
		452,420,574	429,420,277
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		**17,821,666**	17,741,171
Due from BSP		**99,806,581**	103,348,339
Due from other banks		**356,757,288**	331,331,064
		P 474,385,535	P 452,420,574

Supplemental Information on Non-Cash Investing Activities:

1.) On April 21, 2017, the entire assets and liabilities as at April 20, 2017 of Rural Bank of Sibulan (Negros Oriental), Inc. were transferred to and absorbed by the Bank in exchange of equity shares (see Note 23).

2.) In 2017 and 2016, the Bank acquired real and other properties totalling to P2.28 million and P8.40 million, respectively, in settlement of certain loan accounts (see Note 17).

See Notes to Financial Statements.

(With Comparative Figures of 2016)
(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 five Branches which are located in Dumaguete City, Negros Oriental; Sibulan, Negros Oriental; Lapu-Lapu City, Cebu; Valencia, Bukidnon; and, Quezon, Bukidnon.

Prior to merger, the Bank owned 30% equity interest in Rural Bank of Sibulan, Inc. (RBS), a domestic rural bank (see Note 18). In 2017, RBS is merged with the Bank in 2017 (see Note 1.2).

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). On April 4, 2017, SEC approved the Plan and Articles of Merger (see Note 23.1). The merger is accounted

for by applying the acquisition method in accordance with PFRS 3, *Business Combinations*.

1.3 Approval of Financial Statements

The financial statements of the Bank as at and for the year ended December 31, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the Bank's Board of Directors (BOD) on March 17, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and 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 2017 that are Relevant to the Bank

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

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

Discussed below are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative.*

The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). 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.

The Bank had no liabilities arising from financing activities as at December 31, 2017 and 2016. Thus, the application of this amendment has had no impact on the Bank's financial statements.

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

(b) Effective in 2017 but not Relevant to the Bank

The annual improvement to PFRS (2014-2016 Cycle) – PFRS 12, *Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests classified as held for sale*, is mandatory effective for annual periods beginning on or after January 1, 2017 but is not relevant to the Bank's financial statements.

(c) Effective Subsequent to 2017 but not Adopted Early

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

(i) PAS 40 (Amendment), *Investment Property – Reclassification to and from investment property* (effective from January 1, 2018). The amendments states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting changes in use. Management has

assessed that this amendment has no significant impact on the Bank's financial statements.

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

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

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

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

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding.

Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

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

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

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of

embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

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

- On classification and measurement of the Bank's financial assets, management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly. Management expects the majority of loans and receivables and held-to-maturity (HTM) investments to continue to be accounted for at amortized cost. However, available-for-sale (AFS) financial assets and at those already designated at FVTPL, are likely to remain measured at fair value as the cash flows are not solely payments of principal and interest.

- The expected credit loss model will apply to the Bank's loans and receivables and AFS financial assets. For other financial assets and trade receivables, the Bank will apply a simplified model of recognizing lifetime expected credit losses as these items do not have a significant financing component.

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

Based on an assessment of the Bank's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenues pertain to interest income from loans and receivables, which is already within the scope of PFRS 9, *Financial Instruments*.

(iv) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income.

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 similar to a 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) IFRIC 23, *Uncertain over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment

being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

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

2.3 Business Combination

Business combination is accounted for by applying the acquisition method in accordance with PFRS 3, unless it is a combination involving entities or business under common control, as defined in the PFRS 10, *Consolidated Financial Statements*, which is required to be measured at fair value through profit or loss.

The Bank shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of: (i) the consideration transferred measured in accordance with PFRS 3, which generally requires acquisition-date fair value; (ii) the amount of any non-controlling interest in the acquiree measured in accordance with PFRS 3; (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in an associate.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with PFRS 3.

In a business combination in which the Bank and the acquiree (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests may be more reliably measureable than the acquisition-date fair value of the Bank's equity interests. If so, the Bank shall determine the amount of goodwill by using the acquisition-date fair value of the acquiree's equity interests instead of the acquisition-date fair value of the equity interests transferred.

Negative goodwill which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment. Gains and losses on the

disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the Bank is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.4 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 (Losses) 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.

In case of the Bank's merger with RBS, which is achieved in stages, the Bank remeasures its investment in an associate at its acquisition-date fair value and recognize the resulting gain or loss in profit or loss, in accordance with PFRS 3 (see Note 18). The resulting remeasurement gain is presented as Gain on Remeasurement of Investment in an Associate in the statement of profit or loss.

2.5 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an

instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

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

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

2.6 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

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

Construction in progress represents properties under construction and is stated at cost. The account is not depreciated until such time that the assets are completed and available for use.

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 and amortization 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.

2.7 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).

2.8 Investment Properties

Investment properties include parcels of land and buildings and related improvements acquired by the Bank from defaulting borrowers through foreclosure or dation in payment, not held for sale in the next 12 months and/or properties which are held for capital appreciation or for rental. These are initially measured at acquisition cost which comprise the carrying amount of the related loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on provisioning made in accordance with PAS 39, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PAS 39 provisioning requirements) plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). Subsequently, investment properties are stated at cost less accumulated depreciation and any impairment in value. Appraisal is made by the Bank's in-house appraiser at least every other year.

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.

2.9 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 2.16 and 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.

2.10 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.

2.11 Financial Liabilities

Financial liabilities, which include deposit liabilities and other liabilities, except government-related liabilities, 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 those with 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.

2.12 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.

2.13 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.

2.14 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 in the succeeding page 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.

2.15 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.

2.16 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.

2.17 Impairment of Non-financial Assets

The Bank's bank premises, furniture, fixtures and equipment, non-current assets held-for-sale, 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.

2.18 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 Compensation and Employee Benefits 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.

2.19 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.

2.20 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.

2.21 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.

2.22 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.

2.23 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 requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately 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, 2017 and 2016. 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 an 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, 2017 and 2016, 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, 2017 and 2016 will 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 in-house or independent appraisers, as appropriate. 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, 2017 and 2016 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.

(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 and salary rate increase. 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 (liability) and income (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 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. It is also responsible for reviewing and evaluating Bank's related party transactions.

(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	2017	2016
Cash and cash equivalents	8	P 474,385,535	P 452,420,574
Financial Assets at FVTPL	11	6,677,828	6,593,023
HTM investments	12	55,162,304	52,067,833
AFS financial assets	13	221,358,398	176,015,935
Loans and other receivables - net	14	578,750,694	571,655,173
		P 1,336,334,759	P 1,258,752,538

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, 2017 and 2016 represents 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, 2017.

	Neither past due nor impaired	Past due or individually impaired	Total
Cash and cash equivalents	P 474,385,535	P -	P 474,385,535
Financial Assets at FVTPL	6,677,828	-	6,677,828
HTM investments	55,162,304	-	55,162,304
AFS financial assets	221,358,398	-	221,358,398
Loans and other receivables - net	502,328,719	76,421,975	578,750,694
	P1,259,912,784	P 76,421,975	P1,336,334,759

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 other receivables - net	495,522,098	76,133,075	571,655,173
	P1,182,619,463	P 76,133,075	P1,258,752,538

The table below shows the risk grade classification of past due or individually impaired loans and other receivables as at December 31, 2017 and 2016.

	Loans Especially Mentioned	Substandard	Doubtful	Loss	Total
December 31, 2017					
Loans and other receivables	P 34,998,253	P 49,744,650	P 4,950,905	P 1,452,777	P 91,146,585
Allowance for impairment	(1,749,913)	(9,046,468)	(2,475,452)	(1,452,777)	(14,724,610)
Loans and other Receivables - net	P 33,248,340	P 40,698,182	P 2,475,453	P -	P76,421,975
December 31, 2016					
Loans and other receivables	P 64,319,468	P 16,651,986	P 774,842	P 3,461,657	P 85,207,953
Allowance for impairment	(3,215,973)	(2,009,827)	(387,421)	(3,461,657)	(9,074,878)
Loans and other Receivables - net	P 61,103,495	P 14,642,159	P 387,421	P -	P76,133,075

An analysis of concentrations of credit risk for loans and receivables of the Bank by industry, as of December 31, 2017 and 2016 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, 2017 and 2016 is shown below.

	2017	2016
Against past due and already non-performing		
Property		
Real estate mortgage	P 45,049,610	P 59,065,000
Chattel mortgage	8,443,001	6,750,001
Others		
Joint and solidary signature	-	13,052,384
Against current loans and receivables		
Property		
Real estate mortgage	P 889,362,030	P 761,247,265
Chattel mortgage	77,385,504	103,860,810
Others		
Hold-out deposits	55,731,693	57,903,313
Joint and solidary signature	56,261,215	28,312,910
Assignment of receivables	150,000	-
Against items in litigation		
Real estate mortgage	P 33,200,005	P 200,003
Joint and solidary signature	-	1,200,500

The Bank's manner of disposing the collateral for impairment loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

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 settlement groupings of the Bank's financial assets and financial liabilities as of December 31, 2017 and 2016 are presented below.

	2017					
	Up to 1 month	Over 1 up to 3 months	Over 3 up to 6 months	Over 6 months up to 1 year	Beyond 1 year	Total
Resources						
Cash and cash equivalents	P404,027,088	P 70,358,447	P -	P -	P -	P 474,385,535
Financial assets at FVTPL	6,677,828	-	-	-	-	6,677,828
HTM investments	208,329	58,144	2,097	420,691	54,473,043	55,162,304
AFS financial assets	221,358,398	-	-	-	-	221,358,398
Loans and other receivables-net	32,122,292	23,046,357	85,002,686	171,213,435	267,365,924	578,750,694
Total Resources	P664,393,935	P 93,462,948	P 85,004,783	P171,634,126	P321,838,967	P 1,336,334,759
Liabilities						
Deposit liabilities	P598,858,958	P405,292,181	P 6,316,831	P15,830,000	P89,142,000	P1,115,439,970
Other liabilities*	8,050,522	-	-	-	-	8,050,522
Total liabilities	P606,909,480	P405,292,181	P 6,316,831	P 15,830,000	P 89,142,000	P 1,123,490,492
Positive (negative) on-book gap	P 57,484,455	(P311,829,233)	P 78,687,952	P155,804,126	P232,696,967	P 212,844,267

	2016					
	Up to 1 month	Over 1 up to 3 months	Over 3 up to 6 months	Over 6 months up to 1 year	Beyond 1 year	Total
Resources						
Cash and cash equivalents	P389,920,574	P62,500,000	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	P610,602,771	P91,212,530	P142,520,228	P97,003,616	P317,413,393	P1,258,752,538
Liabilities						
Deposit liabilities	P636,628,250	P302,748,218	P16,693,742	P21,170,024	P93,898,422	P1,071,138,656
Other liabilities*	5,671,895	-	-	-	-	5,671,895
Total liabilities	P642,300,145	P302,748,218	P16,693,742	P21,170,024	P93,898,422	P1,076,810,551
Positive (negative) on-book gap	(P 31,697,374)	(P211,535,688)	P125,826,486	P75,833,592	P223,514,971	P 181,941,987

**excluding government-related liabilities*

As of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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 4.04% and 3.10% has been observed during 2017 and 2016, respectively. If quoted price for these securities increased or decreased by that percentage, other comprehensive loss would have changed by P3.75 million and P1.99 million in 2017 and 2016, 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 Values and Fair Values by Category

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

	Notes	2017 Carrying Values	2017 Fair Values	2016 Carrying Values	2016 Fair Values
Financial Assets					
Loans and receivables:					
Cash and other cash items	8	P 17,821,666	P 17,821,666	P 17,741,171	P 17,741,171
Due from BSP	9	99,806,581	99,806,581	103,348,339	103,348,339
Due from other banks	10	356,757,288	356,757,288	331,331,064	331,331,064
Loans and other receivables- net	14	578,750,694	578,750,694	571,655,173	571,655,173
		1,053,136,229	1,053,136,229	1,024,075,747	1,024,075,747
Financial assets at FVTPL	11	6,677,828	6,677,828	6,593,023	6,593,023
HTM investments	12	55,162,304	50,011,391	52,067,833	52,359,923
AFS financial assets	13	221,358,398	221,358,398	176,015,935	176,015,935
		283,198,530	278,047,617	234,676,791	234,968,881
		P 1,336,334,759	P 1,331,183,846	P 1,258,752,538	P 1,259,044,628
Financial Liabilities					
Financial liabilities at amortized cost					
Deposit liabilities	21	P 1,115,439,970	P 1,115,439,970	P 1,071,138,656	P 1,071,138,656
Other liabilities*	22	8,043,522	8,043,522	5,671,895	5,671,895
		P 1,123,483,492	P 1,123,483,492	P 1,076,810,551	P 1,076,810,551

**excluding government-related liabilities*

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, 2017						
Loans and other receivables - net	P 578,750,694	P -	P 578,750,694	P -	(P 55,731,693)	P 523,019,001
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

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, 2017						
Deposit liabilities	P 1,115,439,970	P -	P 1,115,439,970	P -	(P 55,731,693)	P 1,059,708,277
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

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, 2017 and 2016 follows:

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	P -	P 6,677,828	P -	P 6,677,828
AFS financial assets	-	221,358,398	-	221,358,398
	P -	P228,036,226	P -	P228,036,226

	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 -	P182,608,958	P -	P182,608,958

The Bank has no financial liabilities measured at fair value as of December 31, 2017 and 2016.

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 below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the 2017 and 2016 statements of financial position but for which fair value is disclosed.

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and other cash items	P 17,821,666	P -	P -	P 17,821,666
Due from BSP	99,806,581	-	-	99,806,581
Due from other banks	356,757,288	-	-	356,757,288
Loans and other receivables - net	-	-	578,750,694	578,750,694
Debt securities -				
HTM investments	-	50,011,391	-	50,011,391
	P 474,385,535	P 50,011,391	P 578,750,694	P 1,103,147,620
Financial liabilities:				
Deposit liabilities	P -	P -	P1,115,439,970	P 1,115,439,970
Other liabilities	-	-	8,043,522	8,043,522
	P -	P -	P1,123,483,492	P 1,123,483,492

	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

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, 2017 and 2016.

		2017			
	Note	Level 1	Level 2	Level 3	Total
Land		P -	P 52,059,425	P -	P 52,059,425
Building and improvements		-	-	2,392,300	2,392,300
	17	P -	P 52,059,425	P 2,392,300	P 54,451,725

		2016			
	Note	Level 1	Level 2	Level 3	Total
Land		P -	P 60,389,575	P -	P 60,389,575
Building and improvements		-	-	14,999,840	14,999,840
	17	P -	P 60,389,575	P 14,999,840	P 75,389,415

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 2017 and 2016.

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.

On May 13, 2016, BSP approved the Bank's capital build-up program to raise the Bank's capital to at least P300,000,000 until November 30, 2019. The Bank has not complied yet with the above capitalization requirement as at December 31, 2017.

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, 2017 and 2016 is as follows (in thousands):

	2017	2016
Tier 1 capital	P 282,926	P 281,464
Tier 2 capital	5,209	4,920
Total regulatory capital	P 288,135	P 286,384
Total qualifying capital	P 288,135	P 286,384
Risk-weighted assets	P 1,070,417	P 1,313,164

The Bank's capital ratios are as follows:

Total regulatory capital expressed as a percentage of total risk-weighted assets	26.92%	21.81%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	26.43%	21.43%

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, 2017 and 2016.

8. CASH AND CASH EQUIVALENTS

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

	Notes	2017	2016
Cash and other cash items		P 17,821,666	P 17,741,171
Due from BSP	9	99,806,581	103,348,339
Due from other banks	10	356,757,288	331,331,064
		P 474,385,535	P 452,420,574

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 P99,806,581 and P103,348,339 as at December 31, 2017 and 2016, 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, 2017 and 2016, the Bank is in compliance with the said regulations (see Note 21).

10. DUE FROM OTHER BANKS

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

	2017	2016
Savings deposits	P 22,967,069	P 19,308,215
Demand deposits	143,342,657	178,296,926
Time deposits	190,447,562	133,725,923
	P 356,757,288	P 331,331,064

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 1.95% to 3.50% in 2017 and 1.63% to 2.00% in 2016. Interest income on deposits with other banks amounted to P5.75 million and P5.49 million in 2017 and 2016, 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 P4.00 million at date of purchase.

The carrying amounts of the financial asset as of December 31, 2017 and 2016 are P6.68 million and P6.59 million, respectively, based on the fair values determined in reference to the unit price offered by the issuers as at respective dates.

The movement in net unrealized gain on FVTPL as at December 31, 2017 and 2016 is presented below.

	2017	2016
Balance at beginning of year	P 6,593,023	P 6,498,317
Unrealized fair value gains during the year - net	84,805	94,706
Balance at end of year	P 6,677,828	P 6,593,023

The Bank recognized the increase in value of financial assets at FVTPL amounting to P0.08 million and P0.09 million in 2017 and 2016, respectively, as fair value gains on financial assets at FVTPL under Other Income in the statements of profit or loss.

12. HELD-TO-MATURITY INVESTMENTS

The composition of this account as of December 31 follows:

	2017	2016
Government bonds	P 3,962,304	P 5,867,833
Other debt securities		
Corporate bonds	31,200,000	31,200,000
Corporate notes	20,000,000	15,000,000
	P 55,162,304	P 52,067,833

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

	2017	2016
Balance at beginning of year	P 52,067,833	P 52,540,264
Additions	5,011,931	10,000,000
Acquisitions through merger	388,925	-
Redemptions	(2,306,385)	(10,472,431)
Balance at end of year	P 55,162,304	P 52,067,833

The maturity profile of the investment is presented below.

	2017	2016
Less than one year	P 689,261	P 268,908
One to five years	44,473,043	41,798,925
More than five years	10,000,000	10,000,000
	P 55,162,304	P 52,067,833

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

Corporate bonds bear interest rates of 3.25% to 6.21% both in 2017 and 2016. Certain investments will mature in 2019 and the remaining investments will mature in 2020 to 2023.

Corporate notes bear interest rates ranging from 3.25% to 4.13% in 2017 and 3.25% to 3.50% in 2016. These investments will mature in 5 to 7 years and 7 to 8 years in 2017 and 2016, respectively, from date the investments were purchased.

Interest income on these investments amounted to P2.54 million and P2.44 million in 2017 and 2016, 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 follow:

	2017	2016
Balance at the beginning of year	P 176,015,935	P 204,440,023
Additions	53,850,000	70,236,758
Fair value losses – net	(7,771,508)	(5,247,252)
Reversal of premium	(736,029)	(1,311,380)
Disposals	-	(92,102,214)
Balance at end of year	P 221,358,398	P 176,015,935

AFS financial assets include investments in quoted debt securities with fixed interest rates, carried at its fair market value as at December 31, 2017 and 2016.

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

The fair value losses in 2017 and 2016 are recognized as other comprehensive loss of the statements of comprehensive income (see Note 23.3).

Interest income earned on AFS financial assets amounted to P9.51 million and P6.57 million in 2017 and 2016, 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 2017.

14. LOANS AND OTHER RECEIVABLES

This account consists of the following as of December 31:

	Notes	2017	2016
Loans and receivables	28.1	P 566,690,106	P 570,238,099
Allowance for impairment	20	(19,299,238)	(18,933,844)
		547,390,868	551,304,255
Other receivables:			
Accrued interest receivables		12,341,375	14,786,728
Sales contract receivables		13,323,214	4,793,238
Others		6,467,638	1,543,353
		32,132,227	21,123,319
Allowance for impairment	20	(772,401)	(772,401)
		31,359,826	20,350,918
		P 578,750,694	P 571,655,173

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

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

	2017	2016
Secured		
Real estate	P 380,094,603	P 379,647,943
Hold-out deposit	55,731,693	57,903,313
Chattel	37,912,497	36,623,516
Others	16,115,121	8,071,500
	489,853,914	482,246,272
Unsecured	76,836,192	87,991,827
	P 566,690,106	P 570,238,099

The maturity profile of loans and receivables follows:

	2017	2016
Callable upon demand	P 3,608,084	P 9,986,706
Less than one year	288,070,997	61,690,324
One year to five years	162,080,236	364,178,041
Beyond five years	112,930,789	134,383,028
	P 566,690,106	P 570,238,099

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

	2017	2016
Over 25% - 30%	P 214,412	P 335,150
Over 20% - 25%	6,238,587	5,022,286
Over 15% - 20%	12,016,861	3,065,339
15% and below	548,220,246	561,815,324
	P 566,690,106	P 570,238,099

The breakdown of loans and receivables as to status follows:

	2017	2016
Performing loans		
Current	P 526,999,630	P 547,633,504
Past-due	2,291,094	1,754,225
	529,290,724	549,387,729
Non-performing loans (NPLs)		
Past-due	19,125,973	17,559,723
Items in litigation	18,273,409	3,290,647
	37,399,382	20,850,370
	P 566,690,106	P 570,238,099

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, 2017 and 2016, the Bank has no unbooked valuation reserves.

As of December 31, 2017 and 2016, NPLs of the Bank, net of accounts classified as "Loss" that are 100% covered by loan loss reserves follow:

	2017	2016
Gross NPLs	P 37,399,382	P 20,850,370
Less loans classified as "loss" with 100% reserves	(1,452,777)	(3,461,657)
Net NPLs	P 35,946,605	P 17,388,713

NPLs represent approximately 6.60% and 3.66% of the Bank's loan portfolio as at December 31, 2017 and 2016, 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, 2017 and 2016 amount to P21.42 million and P19.31 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, 2017 and 2016 are shown below.

	2017		2016	
	Amount	Percentage	Amount	Percentage
Agriculture, forestry and fishing	P200,084,612	35%	P192,322,629	34%
Wholesale and retail trade; repair of motor vehicles and motorcycles	90,347,874	16%	95,763,310	17%
Construction	83,131,002	15%	101,898,888	18%
Real estate activities	65,979,627	12%	52,593,871	9%
Water supply, sewerage, waste management and remediation activities	25,894,521	5%	26,579,258	5%
Transportation and storage	16,441,714	3%	24,841,006	4%
Manufacturing	13,722,952	2%	8,210,970	1%
Accommodation and food services activities	10,926,477	2%	1,976,405	0%
Education	6,471,149	1%	639,418	0%
Human health and social activities	3,498,766	1%	4,034,872	1%
Electricity, gas, steam, and air conditioning supply	2,450,000	0%	2,453,996	0%
Professional, scientific & technical				

Services	2,110,449	0%	2,696,470	0%
Administrative and support service Activities	1,049,600	0%	-	0%
Mining and quarrying	906,585	0%	1,743,063	0%
Arts, entertainment & recreation	817,948	0%	-	13%
Financial and insurance activities	262,686	0%	577,078	0%
Other service activities	42,594,144	8%	53,906,865	9%
	P566,690,106	100%	P570,238,099	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, forestry and fishing as of December 31, 2017 and 2016 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:

	2017	2016
Loans and receivables	P 57,059,056	P 55,902,327
Sales contract receivables	855,387	148,059
	P 57,914,443	P 56,050,386

None of the Bank's loans and receivables is held as collateral for any borrowings as at December 31, 2017 and 2016.

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 2017 and 2016 are shown below.

	Land	Building and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
December 31, 2017						
Cost	P 17,401,927	P 31,246,761	P 30,423,681	P 3,159,917	P 112,500	P 82,344,786
Accumulated depreciation and amortization	-	(14,053,411)	(26,830,285)	(3,071,116)	-	(43,954,812)
Net carrying amount	P 17,401,927	P 17,193,350	P 3,593,396	P 88,801	P 112,500	P 38,389,974
December 31, 2016						
Cost	P 16,584,665	P 27,944,733	P 27,911,817	P 3,159,917	P -	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 -	P 34,354,343

January 1, 2016						
Cost	P 16,584,665	P 27,944,733	P 26,823,071	P 3,149,917	P -	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 -	P 36,325,876

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

	Land	Building and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P16,584,665	P 14,727,563	P 2,913,905	P 128,210	P -	P 34,354,343
Acquisitions through merger	817,262	3,329,420	417,362	-	-	4,564,044
Additions	-	-	2,541,158	-	112,500	2,653,658
Disposal	-	-	(51)	-	-	(51)
Write-off	-	(26,869)	-	-	-	(26,869)
Reclassification	-	-	-	-	-	-
Depreciation and amortization charges for the year	-	(836,764)	(2,278,978)	(39,409)	-	(3,155,151)
Balance at December 31, 2017 net of accumulated1 depreciation and amortization	P 17,401,927	P 17,193,350	P 3,593,396	P 88,801	P 112,500	P 38,389,974
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 -	P 36,325,876
Additions	-	-	1,463,843	45,000	-	1,508,843
Write-off	-	-	(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 -	P 34,354,343

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

The cost of fully depreciated bank premises, furniture, fixtures and equipment as at December 31, 2017 and 2016 are still being used in operations amounted to P27.13 million and P20.78 million , respectively. The Bank recognized gain on disposal of certain furniture, fixtures and equipment totaling P0.01 million in 2017.

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

Gross carrying amounts and accumulated impairment of non-current assets held-for-sale at the beginning and end of 2017 and 2016 are presented below.

	Note	2017	2016
Cost		P 407,122	P 413,947
Accumulated impairment	20	(381,352)	(381,352)
Net carrying amount		P 25,770	P 32,595

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

	2017	2016
Balance at beginning of year	P 32,595	P 243,945
Disposals	(6,825)	(211,350)
Net carrying amount	P 25,770	P 32,595

In 2017 and 2016, certain non-current assets-held-for-sale with a carrying amount of P0.01 million and P0.21 million were sold for P0.28 million and P1.18 million, respectively. The gain on disposal is presented as part of Gain on sale of non-financial assets under Other Income in the statements of profit or loss.

17. INVESTMENT PROPERTIES

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

	Land	Building and Improvements	Total
December 31, 2017			
Cost	P 38,029,558	P 2,642,728	P 40,672,286
Accumulated impairment	(20,088,792)	-	(20,088,792)
Accumulated depreciation	-	(1,543,322)	(1,543,322)
Net carrying amount	P 17,940,766	P 1,099,406	P 19,040,172
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

	Land	Building and Improvements	Total
January 1, 2016			
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

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

	Land	Building Improvements	Total
Balance at January 1, 2017 net of accumulated depreciation and impairment	P 22,571,184	P 6,788,314	P 29,359,498
Additions	2,283,159	-	2,283,159
Disposals	(6,913,577)	(5,364,225)	(12,277,802)
Depreciation charges for the year	-	(324,683)	(324,683)
Balance at December 31, 2017 net of accumulated depreciation and impairment	P 17,940,766	P 1,099,406	P 19,040,172
Balance at January 1, 2016 net of accumulated depreciation and impairment	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 and impairment	P 22,571,184	P 6,788,314	P 29,359,498

Gain on disposal of certain investment properties amounted to P2.39 million and P2.68 million in 2017 and 2016, respectively. Proceeds from the said disposal amounted to P14.67 million and P11.25 million, in 2017and 2016, respectively.

Direct costs incurred in relation to these properties are depreciation expense, real property taxes and repairs and maintenance. Total direct costs amounted to P0.58 million and P1.23 million in 2017 and 2016, respectively.

Rental income from investment properties amounted to P3.02 million and P2.29 million in 2017 and 2016, respectively (see Note 31.2).

Investment properties of the Bank has a fair value of P54.45 million and P75.39 million as at December 31, 2017 and 2016, respectively, based on the appraisal report (see Note 6.4).

18. EQUITY INVESTMENT IN AN ASSOCIATE

As of December 31, 2016, 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 2017 and 2016 of investment in an associate is shown below.

	2017	2016
Acquisition cost	P 2,092,200	P 2,092,200
Accumulated equity in net earnings		
Balance at beginning of year	775,460	743,732
Equity in net earnings (losses)	(98,428)	31,728
	677,032	775,460
Remeasurement prior to merger	2,468,181	-
Derecognition due to merger	(5,237,413)	-
Balance at end of year	P -	P 2,867,660

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

	2017	2016
Current assets	P -	P 15,142,138
Non-current assets	-	15,206,080
Total assets	P -	P 30,348,218
Current liabilities	P -	P 12,589,077

Revenues	P 717,886	P 3,390,212
Profit (loss) for the year	(328,093)	105,761
Other comprehensive income for the year	-	-
Total comprehensive income (loss) for the year	(P 328,093)	P 105,761

Prior to merger, the Bank remeasured its investment in an associate to its acquisition-date fair value at P5.24 million, which is equivalent to 30% of the acquisition-date fair values of RBS net assets of P17.46 million as at April 20, 2017. The resulting gain of P2.47 million from remeasurement is recorded as Gain on Remeasurement in the 2017 statement of profit or loss.

19. OTHER RESOURCES

The composition of the Other Resources account as of December 31, 2017 and 2016 follows:

	Note	2017	2016
Prepayments		P 5,192,409	P 3,945,648
Post-employment defined benefit asset	26.2	1,027,295	-
Computer software - net		724,117	748,269
Supplies on hand		426,797	343,414
Documentary stamps		359,556	358,876
Miscellaneous		194,601	192,998
		P 7,924,775	P 5,589,205

The Bank acquired computer software amounting to P0.15 million and P0.63 million in 2017 and 2016, respectively. Amortization expense recognized on computer software account amounted to P0.18 million and P0.23 million for the year ended December 31, 2017 and 2016, respectively, 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.

	Notes	2017	2016
Balance at beginning 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
		40,176,389	43,607,645
Movements during the year:			
Allowance brought by merger		365,394	-
Disposal of investment properties		-	(3,347,967)
Write-off of loans and receivables		-	(83,289)
		(365,394)	(3,431,256)
Balance at end of year			
Loans and receivables	14	P 19,299,238	P 18,933,844
Investment properties	17	20,088,792	20,088,792
Non-current assets held-for-sale	16	381,352	381,352
Other receivables	14	772,401	772,401
		P 40,541,783	P 40,176,389

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:

	2017	2016
Savings	P 750,339,963	P 655,745,584
Demand	255,064,650	286,576,650
Time	110,035,357	128,816,422
	P 1,115,439,970	P 1,071,138,656

The maturity profile of this account is presented below.

	2017	2016
Less than one year	P 1,026,297,970	P 977,250,234
One to five years	89,142,000	93,888,422
	P 1,115,439,970	P 1,071,138,656

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 2017 and 2016.

	2017	2016
Savings	0.30% - 1.50%	0.30% - 1.50%
Demand	0.00% - 0.25%	0.00% - 0.25%
Time	0.75% - 3.00%	0.75% - 6.00%

Interest expense on deposit liabilities recognized in 2017 and 2016 amounted to P12.11 million and P14.93 million, respectively.

The 6.00% interest on time deposits pertain to a five-year time deposit opened in May 2012 and that has matured 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 at December 31, 2017 and 2016, the Bank is in compliance with the said regulations.

Liquidity and statutory reserves as of December 31, 2017 and 2016 are as follows:

	Notes	2017	2016
Due from BSP	8, 9	P 99,806,581	P 103,348,339
Due from other banks	8, 10	213,414,631	153,034,138
HTM investments	12	55,162,304	52,067,833
		P 368,383,516	P 308,450,310

In accordance with the same circular, demand deposits maintained with banks which are not restricted as to withdrawal or use for current operations but not with banks which have been closed and are under receivership or liquidation shall no longer be eligible as compliance with the reserve requirement.

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

22. OTHER LIABILITIES

This account consists of the following as of December 31:

	Notes	2017	2016
Accounts payable		P 3,382,602	P 1,374,019
Manager's check payable		2,433,402	1,801,626
Accrued expenses		1,198,340	1,217,345
Due to PDIC		1,135,196	1,039,375
Accrued interest payable		952,963	904,323
GRT payable	32.1*(a)*	497,280	300,689
Withholding tax payable		465,345	420,604
DST payable	32.1*(b)*	419,671	414,462
Due to the Treasurer of the Philippines		239,374	239,374
Contributions payable		201,956	223,141
FBT payable		10,522	1,143
Post-employment defined benefit obligation	26.2	-	242,920
Miscellaneous liabilities		83,215	131,662
		P 11,019,866	P 8,310,683

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

23. CAPITAL FUNDS

23.1 Capital Stock

Capital stock as of December 31, 2017 and 2016 consists of:

	Shares		Amount	
	2017	2016	2017	2016
Common shares – P100 par value				
Authorized – 1,140,000 shares				
Issued and outstanding:				
Balance at beginning of year	1,049,940	1,049,940	P 104,994,000	P104,994,000
Issued during the year	53,675	-	5,367,500	-
Balance at end of year	1,103,615	1,049,940	P 110,361,500	P104,994,000

Preferred shares – P100 par value				
Authorized - 60,000 shares				
Issued and outstanding	-	-	P -	P -

As of December 31, 2017 and 2016, the Bank has 106 stockholders owning 100 or more shares each of the Bank's capital stock.

As discussed in Note 1, as a result of merger between the Bank and RBS, on April 21, 2017, the entire assets and liabilities of RBS, with net acquisition-date fair values of P17.46 million as at April 20, 2017, were transferred to the Bank in exchange for 53,675 shares with P100 par value per share or an aggregate amount of P5.37 million in favor of the shareholders of RBS. The details of the assets and liabilities acquired through merger are as follows:

	Notes	
Cash and cash equivalents		P 12,890,578
Held-to-maturity investments	12	388,925
Loans and other receivables		13,140,196
Bank premises, furniture, fixtures and equipment	15	4,564,044
Other resources		117,006
Deposit liabilities		(13,415,876)
Other liabilities		(226,830)
		P 17,458,043

The excess of P12.22 million (or the 70% of the RBS net assets) over the total par value of shares issued was treated as additional paid-in capital of the Bank at P6.85 million.

23.2 Retained Earnings

On July 21, 2012, the BOD of the Bank approved the appropriation of retained earnings amounting to P12.00 million. This was allocated for an investment in BancNet connection facilities but was not fully utilized in 2017, thus still remained appropriated as at December 31, 2017 for further expansion of the Bank's Automated Teller Machine (ATM) services.

On March 30, 2017, the BOD approved additional appropriation of P40.00 million to be used for capital expenditure for the Bank's building construction in Lapu-lapu City, which has started on March 9, 2017.

The Bank's unappropriated retained earnings exceeded the Bank's paid-in capital as at December 31, 2017 and 2016. 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 Asset	Total
Balance as of January 1, 2017		(P 7,133,333)	P 1,802,369	(P 5,330,964)
Fair value loss on AFS financial assets during the year - net	13	(7,771,508)	-	(7,771,508)
Remeasurements of post-employment defined benefit asset	26.2	-	1,538,730	1,538,730
Other comprehensive gain (loss) before tax		(7,771,508)	1,538,730	(6,232,778)
Tax income (expense)	27	2,331,452	(461,619)	1,869,833
Other comprehensive income (loss) after tax		(5,440,056)	1,077,111	(4,362,945)
Balance as of December 31, 2017		**(P 12,573,389)**	**P 2,879,480**	**(P 9,693,909)**
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)

24. MISCELLANEOUS INCOME

Presented below are the details of miscellaneous income.

	2017	2016
Gain on redemption of government bonds	P 281,666	P 854,693
Appraisal fees	144,741	110,610
Service fees for passbook or check booklet replacements	138,482	156,417
Loan fees/account pre-termination	21,287	21,940
Bancnet transaction fees	-	80,750
Other miscellaneous income	178,504	200,590
	P 764,680	P 1,425,000

Other miscellaneous income includes rental penalties from lessee, refund of educational assistance of resigned employees, income from sale of old newspapers, service charges for stop order payments.

25. OTHER ADMINISTRATIVE EXPENSES

Presented below are the details of other administrative expenses.

	Note	2017	2016
Outside services		P 5,028,372	P 4,429,079
Insurance		3,469,142	3,318,171
Communication		1,955,080	1,892,938
Information technology		1,898,353	1,636,416
Transportation and travel		1,691,201	1,451,191
Management and professional fees		1,686,122	1,464,803
Utilities		1,595,344	1,686,998
Repairs and maintenance		1,081,920	842,233
Litigation		899,506	1,136,785
Stationery and supplies used		855,959	524,153
Fuel and lubricants		388,933	285,486
Supervision fees		254,656	224,932
Representation and entertainment		248,957	196,380
Rent	31.1	187,141	215,739
Fees and commissions		99,035	218,575
Miscellaneous		3,811,978	1,985,463
		P 25,151,699	P 21,509,342

Miscellaneous other administrative expenses include advertising and publicity, membership fees and dues, donations and charitable contributions, periodicals and magazines, fines and penalties and other charges.

26. COMPENSATION AND EMPLOYEE BENEFITS

26.1 Compensation and Employee Benefits

Details of compensation and employee benefits are presented below.

	Notes	2017	2016
Short-term employee benefits	28.2	P 18,601,624	P 17,244,887
Post-employment benefits	26.2	1,378,422	1,145,960
		P 19,980,046	P 18,390,847

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 reports obtained from an independent actuary in 2017 and 2016.

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 shown in the next page.

	2017	2016
Fair value of plan assets	P 10,630,568	P 11,983,364
Present value of the obligation	(9,544,717)	(12,226,284)
Surplus (deficiency)	1,085,851	(242,920)
Effect of the asset ceiling	(58,556)	-
	P 1,027,295	(P 242,920)

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

	2017	2016
Balance at beginning of year	P 11,983,364	P 12,338,296
Contributions	1,109,907	1,099,522
Interest income	612,437	618,360
Return on plan assets (excluding amounts included in net interest)	(765,698)	(404,313)
Benefits paid	(2,309,442)	(1,668,501)
Balance at end of year	P 10,630,568	P 11,983,364

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

	2017	2016
Cash and cash equivalents	P 6,670,682	P 7,723,278
Debt securities:		
Philippine government bonds	4,947,466	4,947,931
Others (market gains/losses/ accrued receivables, etc.)	(987,580)	(687,845)
	P 10,630,568	P 11,983,364

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

	2017	2016
Balance at beginning of year	P 12,226,284	P 11,728,631
Current service cost	1,333,085	1,161,115
Interest expense	657,774	601,679
Remeasurements:		
Actuarial gains (losses) arising from:		
Experience adjustments	(2,138,417)	562,497
Changes in financial assumptions	(224,567)	(159,137)
Benefits paid	(2,309,442)	(1,668,501)
Balance at end of year	P 9,544,717	P 12,226,284

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

	2017	2016
Reported in profit or loss:		
Current service cost	P 1,333,085	P 1,161,115
Interest expense on DBO	657,774	601,679
Interest income on plan assets	(612,437)	(618,360)
Interest on the effect of asset ceiling	-	1,526
Net interest	45,337	(15,155)
	P 1,378,422	P 1,145,960

Reported in other comprehensive income:		
Actuarial losses (gains) arising from:		
Experience adjustments	(P 2,138,417)	P 562,497
Changes in financial assumptions	(224,567)	(159,137)
Remeasurement gain – change in the effect of the asset ceiling	58,556	(31,276)
Return on plan assets (excluding amounts included in net interest expense)	765,698	404,313
	(P 1,538,730)	P 776,397

Current service cost and net interest 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:

	2017	2016
Discount rates	5.70%	5.38%
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 8 for males and 20 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 zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(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 in the succeeding page.

(i) Sensitivity Analysis

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

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2017			
Discount rate	+/- 1.00%	(P 632,524)	P 742,289
Salary growth rate	+/- 1.00%	624,917	(546,329)
December 31, 2016			
Discount rate	+/- 1.00%	(P 578,364)	P 675,941
Salary growth rate	+/- 1.00%	569,095	(500,138)

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 obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The 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 overfunded by P1.09 million based on the latest actuarial valuation.

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

	2017	2016
Within one year	P 2,408,131	P 4,024,656
More than one year to five years	3,381,283	198,951
More than five years to ten years	2,602,565	5,084,268
	P 8,391,979	P 9,307,875

The weighted average duration of the defined benefit obligation at the end of the reporting period is 7.2 years.

27. CURRENT AND DEFERRED TAXES

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

	Note	2017	2016
Reported in statements of profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%		P 3,916,550	P 2,982,218
Final tax at 20%		3,559,816	2,900,722
		7,476,366	5,882,940
Deferred tax expense (income) relating to the origination and reversal of temporary differences		(166,924)	1,074,479
		P 7,309,442	P 6,957,419
Reported in statements of other comprehensive income			
Deferred tax income relating to the origination of temporary differences	23.3	P 1,869,833	(P 1,807,095)

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:

	2017	2016
Tax on pre-tax profit at 30%	P 7,618,618	P 7,007,549
Adjustment for income subject to lower tax rate	(1,779,908)	(1,450,361)
Tax effects of:		
Non-deductible interest expense	1,762,109	1,435,857
Other non-deductible expenses	449,077	88,890
Non-taxable income	(740,454)	(124,516)
	P 7,309,442	P 6,957,419

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	
	2017	2016	2017	2016	2017	2016
Deferred tax assets:						
Impairment losses on investment properties	P 6,026,638	P 6,026,638	P -	P 1,004,389	P -	P -
Impairment losses on loans and receivables	5,789,772	5,680,154	(109,618)	24,985	-	-
Unrealized fair value gain AFS financial assets	4,324,561	1,993,109	-	-	(2,331,452)	(1,574,176)
Impairment losses on other receivables	231,720	231,720	-	-	-	-
Impairment losses on assets held-for-sale	114,406	114,406	-	-	-	-
Post-employment defined benefit obligation	-	72,876	72,876	160,043	-	(232,919)
Unearned rental income	21,525	20,933	(592)	(5,100)	-	-
Provision for PBSP	-	-	-	35,689	-	-
	16,508,622	14,139,836	(37,334)	1,220,006	(2,331,452)	(1,807,095)
Deferred tax liabilities:						
Unrealized gain on financial assets at FVTPL	(820,028)	(794,586)	25,442	28,412	-	-
Post-employment defined benefit asset	(308,189)	-	(153,430)	(173,975)	461,619	-
Unrealized foreign currency gains	-	(1,602)	(1,602)	36	-	-
	(1,128,217)	(796,188)	(129,590)	(145,527)	461,619	-
Net Deferred Tax Assets	P 15,380,405	P 13,343,648				
Deferred Tax Expense (Income)			(P 166,924)	P 1,074,479	(P 1,869,833)	(P 1,807,095)

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

In 2017 and 2016, 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, 2017 and 2016, the Bank is in compliance with these regulatory requirements.

The following additional information is presented relative to DOSRI loans:

	2017	2016
Total DOSRI loans	P 54,934,692	P 55,397,115
% of DOSRI loans to total loan portfolio	9.69%	9.71%

There are no past-due DOSRI loans as of December 31, 2017 and 2016.

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 3.50% to 14.00% for those outstanding as at December 31, 2017 and 3.25% to 14.70% for those outstanding as at December 31, 2016. Interest income earned from these loans amounted to P1.90 million and P1.81 million in 2017 and 2016, respectively. Accrued interest receivable from these loans amounted to P0.16 million and P0.11 million as at December 31, 2017 and 2016, respectively.

There was no recorded impairment loss for these loans in 2017 and 2016.

The loans are fully secured by deposits from DOSRI as at December 31, 2017 and 2016 amounting to P78.33 million and P95.30 million, respectively. Interest expense from these deposits amounted to P0.64 million and P1.30 million in 2017 and 2016, respectively.

28.2 Key Management Personnel Compensations

The compensations of key management personnel follow:

	2017	2016
Short-term and employee benefits	P 1,846,745	P 2,575,299
Post-employment benefit	241,155	327,294
	P 2,087,900	P 2,902,593

Director's fees incurred by the Bank amounted to P1.49 million and P1.50 million in 2017 and 2016, 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, 2017 and 2016 are 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:

	2017	2016
Net profit pertaining to common shares	P 18,085,951	P 16,401,078
Divided by the weighted average number of common shares outstanding	1,090,196	1,049,940
Earnings per share	P 16.59	P 15.62

As of December 31, 2017 and 2016, 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:

	2017	2016
Return on average capital funds	6.51%	6.39%
Return on average assets	1.30%	1.25%
Net interest margin	5.22%	4.69%
Capital adequacy ratio	26.91%	21.81%

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 is a lessee under operating lease agreements covering certain parcel of land and building premises. The total rentals from these operating leases amounted to P0.19 million and P0.22 million in 2017 and 2016, 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 parties to lease out a portion of its investment properties for a period of one year, renewable every year (see Note 17). The total rent income from these operating leases amounted to P3.02 million and P2.29 million in 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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) No. 15-2010

(a) 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 2017, the Bank reported total gross receipts tax amounting to P3,887,708 which is shown as part of Taxes and Licenses [see Note 32.1*(d)*]. Total gross receipts tax payable as of December 31, 2017 amounted to P497,468, and is recorded as part of GRT payable account in Other Liabilities account in the 2017 statement of financial position (see Note 22).

(b) DST

For the year ended December 31, 2017, the composition of DST is as follows:

Preferred savings deposit (PSD) - net	P	2,194,051
Super-privilege time deposit		80,780
Checkbook		2,880
Others		215
		2,277,926

The total amount of DST used, net of P28,119 DST charged to depositors on pre-terminated PSD, is accordingly charged to profit or loss as part of Taxes and licenses [see Note 32.1*(d)*]. Total DST remittances for the year-ended December 31, 2017 amounted to P4,616,579. As of December 31, 2017, the Bank has an outstanding prepaid DST amounting to P359,556. Total DST payable as of December 31, 2017 amounted to P419,671, and is recorded as part of Other Liabilities account in the 2017 statement of financial position (see Note 22).

(c) Withholding Taxes

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

Final	P	1,542,395
Compensation and benefits		1,325,966
Expanded		805,648
	P	3,674,009

(d) Taxes and Licenses

The details of taxes and licenses of the Bank in 2017 are as follows:

	Note		
GRT	32.1*(a)*	P	3,887,708
DST	32.1*(b)*		2,277,926
Local taxes and business permits			591,095
Real property taxes			308,771
Annual registration fee			2,500
FBT			30,150
Miscellaneous			133,306
		P	7,231,456

(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, 2017, 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 taxable years.

32.2 Requirements under RR No. 19-2011

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

The amounts of taxable revenues and income, and deductible costs and expenses presented below 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 2017 statement of profit or loss.

(a) Taxable Revenues

The Bank's taxable revenues for the year ended December 31, 2017 from rendering of services subject to regular tax rate amounted to P57,914,443.

(b) Deductible Costs and Expenses

The Bank's deductible costs and expenses for the year ended December 31, 2017 from rendering of services subject to regular tax rate are as follows:

Salaries and allowances	P 12,963,371
Interest expense	6,240,222
PDIC insurance	2,336,144
Supervision fees	254,656
	P 21,794,393

(c) Taxable Non-operating and Other Income

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

Service charges, fees and commission	P 8,312,471
Rent	3,021,850
Gain on sale of investment properties	2,663,557
Recovery from loans written-off	600,000
Miscellaneous	770,405
	P 15,368,283

(d) Itemized Deductions

The amounts of itemized deductions subject to regular tax rates for the year ended December 31, 2017 are as follows:

Taxes and licenses	P 7,231,456
Other services	5,044,984
Communication, light and water	3,550,424

Depreciation	3,479,834
Salaries and allowances	2,373,929
Information technology expenses	1,898,353
Transportation and travel	1,691,201
Professional fees	1,686,122
Director's fees	1,492,853
Insurance	1,132,999
Contribution to plan assets	1,109,907
Repairs and maintenance - (labor or labor & materials)	1,081,920
SSS, GSIS, PhilHealth, HDMF and other contributions	887,945
Fringe benefits	866,914
Office supplies	855,959
Fuel and oil	388,933
Representation and entertainment	248,957
Rental	187,141
Amortizations - computerization	176,319
Commissions	99,035
Advertising and promotions	41,210
Charitable contributions	35,587
Miscellaneous	2,871,186
	P 38,433,168

BOARD OF DIRECTORS

JULIO O. SY, SR
Chairman of the Board
Founder/Incorporator
84 years old, Filipino
37 years on DCDB Board
President, New Bian Yek Commercial, Inc. (1977-2006)
President, July Development Corp. (1982-2010)
Chairman, CIFC
Chairman/President, Bayview Park Hotel
President, BUSCO Sugar Milling Co., Inc.
Education: Business Management, Silliman University

GREGORIO L. UYMATIAO JR.
Vice-Chairman of the Board
66 years old, Filipino
24 years on DCDB Board
Chairman: Glubros Development, Inc.
Neg. Or. Business Dev't Foundation
UMEE Development Corp.
GEU Land development Corp.
President: Glubros Agri-Industrial Corp.
Loupetrice Resources, Inc.
Greffinjoy Realty, Corp.
Eugenia Resources Corp
DLUM Resources, Inc.
Slytherin Development Corp.
Hufflepuff Agricultural Corp.
Director, CIFC
General Manager: G. Uymatiao, Jr. Construction
Dgte. People's Estate Development
Vice-President: NOCCI
Uymatiao Realty & Development Corp.
Uymatiao Trading Corp.
Prime Highland Energy Resource Corporation
Treasurer, Teratri Development Corp.
Education: BS Civil Engineering, University of San Carlos, Cebu
Structural Engineering, A.I.T. Bangkok, Thailand
MBA, St. Paul College Dumaguete

GILBERT PAUL L. UYMATIAO
Treasurer of the Board
60 years old, Filipino
9 years on DCDB Board
Treasurer/Manager: Uymatiao Trading Corp.
Uymatiao Realty & Development Corp.
UMEE Development Corp.
Instructor: Department of Mechanical Engineering (1978-1979)
Construction Engineer, Jurong Engineering PTE. LTD. (1979-1980)
Representative, Governor's United Assistance for Rural Development
Education: BS Mechanical Engineering, Cebu Institute of Technology
MA in Finance, The Wharton School of the University of Pennsylvania

BOARD OF DIRECTORS

NICOLAS S. RAMAS-UYPITCHING

Directors
74 years old, Filipino
34 years on DCDB Board
Consultant, Holy Child Hospital
Chairman: RUSI, DUPLAMILCO
Education: Bachelor of Medicine, UERM

RUBEN D. ALMENDRAS

Director
72 years old, Filipino
27 years on DCDB Board
Director/Treasurer, Cebu Country Club
Chairman, Philippine Chamber of Coal Mines (1989-1994)
Metropolitan Cebu Water District (1992-2004)
President: Rotary Club of Cebu West (1990-1991)
FINEX Cebu (1989-1995)
Director: Philippine Bank of Communication (2005-2008)
MCWD (1993-1994)
Cebu Chamber of Commerce and Industry (1992-1995)
Cebu Business Club (1985-1988)
PDIC (2005-2008)
National Power Corp. (2001-2002)
Senior Consultant, Indovina Bank Vietnam (1989-1991)
Education: AB Philosophy, University of the Philippines
MBA Finance, University of the Philippines
Course in BSIE, Adamson University
Course in BSBA, University of the Philippines

DANFORD S. SY

Director
43 years old, Filipino
11 years on DCDB Board
President: New Bian Yek Commercial
July Development Corp.
NEGOR Nine Seas, Inc.
Rotary Club (1998-1999)
Director, Dgte. Lifetime Properties, Inc.
Treasurer, CFORCE Security Services, Inc.
Manager, Dgte. SVS Capital Ventures, Inc.
Owner, Dumaguete Royal Suite Inn
Education: Business Management, University of Asia and Pacific

MARIA LORNA T. LABITAN

Independent Director
63 years old, Filipino
3 years on DCDB Board
President: E-PERA Philippines, Inc.
Oiltrade Exchange, Inc.
Treasury Manager, TAO Corporation
Treasurer, Taospuso Foundation Corporation
Consultant: Hygiene Science, Inc.
AQG Corporation
7101 Music Nation Corp.
Avseneca Const. Corp.
Germs Shield, Inc.
Tao Commodity Trader, Inc.
TAO Shipping Corp.
Southbay Bulk Terminal, Inc.
ALTUUS Communication, Inc.
Open Communications, Inc.
Conversa Mobile, Inc.
Technology in Motion Corp
Techbox International, Inc.
AVP: MBTC Trust Banking Group (2006-2010)
MBTC-Private Banking Div. (2000-2006)
Solidbank Corp-HO Cash Department (1992-2000)
Assistant Manager: Solidbank Corp-Systems Department (1990-1992)
Solidbank Corp-Treasury Group (1986-1990)
Audit Clerk, Solidbank Corp-Auditing Department
Accounting Clerk, Family Savings Bank
Education: BS Commerce-Accounting, St. Theresa's College Cebu
BSBA & Associate in Secretarial Science, St. Theresa's College Cebu

BOARD OF DIRECTORS

EDWARD Y.R. SUNG

Director
57 years old, Filipino
6 years on DCDB Board
Director, Drugstores Association of the Philippines
Board of Trustee, Holy Cross High School
Treasurer, Philippine Coast Guard Auxiliary 206 Cuadron
General Manager, Negros Union Drug Co., Inc.
Owner, EDRA Real Estate Lessor
Partner: Sung, Domingo, DU & Co.
Member: Metro Dumaguete Lions Club
PICPA –Neg. Or/Siquijor Chapter
Dgte. Shooters Association
Chief Compliance Officer, RBS
Volunteer, Filipino Chinese Fire Brigade
Education: BSBA-Accounting, Foundation University
BBA-Management, Silliman University

JULIE T. TAN

Independent Director
56 years old, Filipino
4 years on DCDB Board
Partner: Tangente & Partners Co. CPA in Public Practice
Accounting Teacher, Silliman University (1982-1986)
Manager, Gerry's General Marketing (1990-2010)
President, PICPA Neg. Or. Chapter (2013-2014)
Education: BBA-Accounting, Silliman University
MBA, Silliman University (18 units)

RODRIGO G. DIAZ

Independent Director
55 years old, Filipino
7 years on DCDB Board
Director, Rural Bank of Tanjay
President, Diaz College
Member, Association Agricola de Bais Tanjay
Education: BBA, Silliman University

LAWRENCE S. LIMKAICHONG III

Director
30 years old, Filipino
6 months on DCDB Board
Treasurer/AMO, Supreme Mega Structure Builders Inc.
Education: BS MIS, Ateneo De Manila University
BS Civil Engineering, Silliman University

ADVISERS AND SENIOR MANAGEMENT

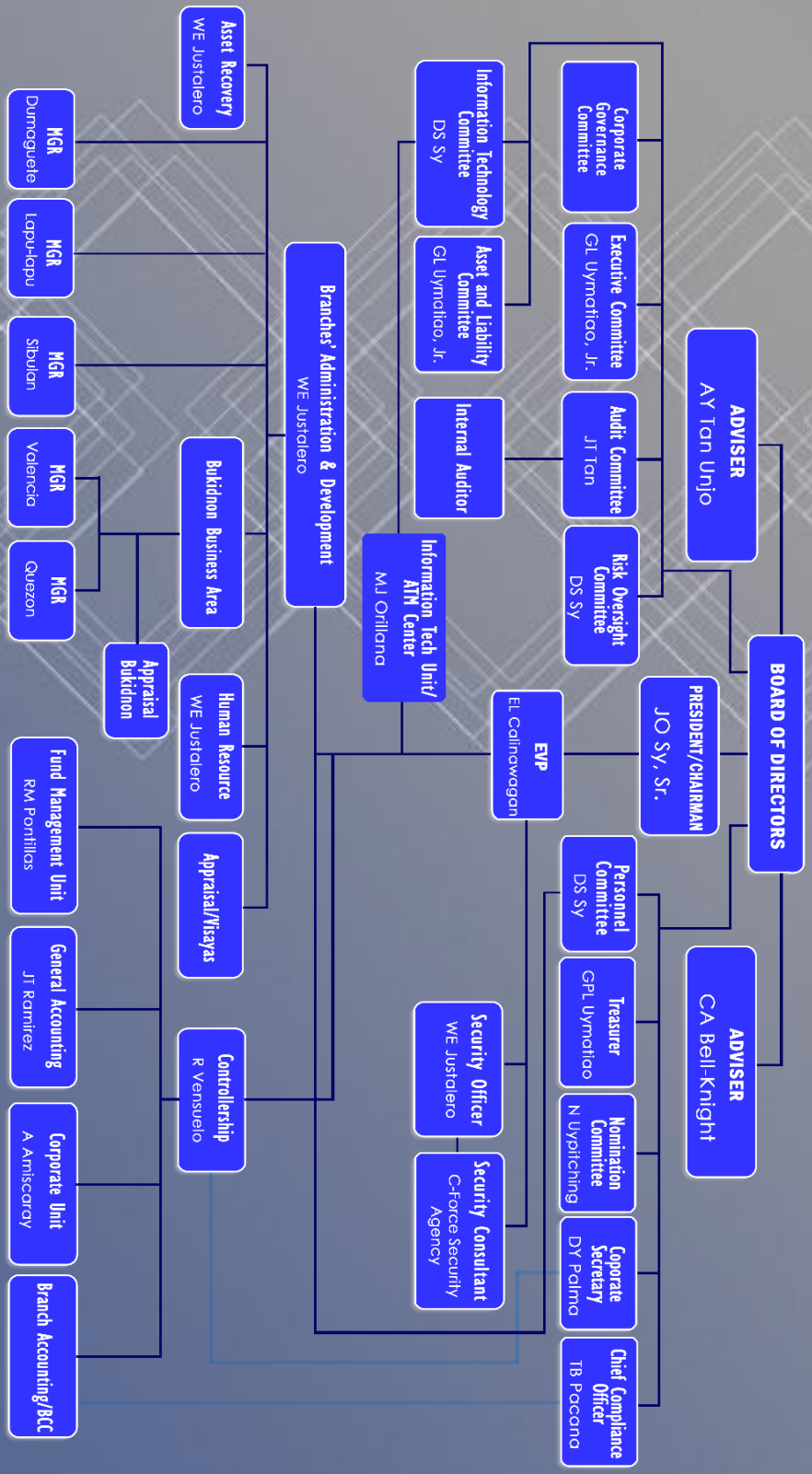
CHRISTOPHER A. BELL-KNIGHT
Adviser
73 years old, Canadian
4 years on DCDB Board & 6 years as Adviser
Director, Solidbank Corporation (1990-1998)
Director, Banco de Oro (2006-2010)
Adviser, Banco de Oro
Education: 6th Form, FROME Grammar School Somerset England

ALVIN TAN UNJO
Adviser
59 years old, Filipino
18 years on DCDB Board & 6 years as Adviser
Director: Royal Steve's Entertainment Plaza
Hyundai, Cagayan De Oro, Inc.
Director/Treasurer, Cebu International Finance Corp.
Corporate Secretary, Cebu Automatic Motors, Inc.
Education: BSBA, University of San Carlos

EDGAR L. CALINAWAGAN
Executive Vice-President
70 years old, Filipino
8 years with DCDB
Director, Dumaguete Doctors Medical & Dialysis Center, Inc.
Manager, China Bank Corp. (1995-2008)
Manager, FEBTC (1988-1992)
Branch Accountant, FEBTC (1978-1982)
Education: BSC-Accounting, Foundation University
MBA, St. Paul University (15 units)

TERTULIANO B. PACAÑA
Vice-President/Chief Compliance Officer
66 years old, Filipino
8 years with DCDB
Manager, SG Bank-A Rural Bank (2006-2008)
Assistant Manager/Cashier, BPI (1990-1998)
Education: BSC-Accounting, Foundation University
Bachelor of Laws (LLB)/BS in Jurisprudence (BSJ), Foundation University

ORGANIZATIONAL CHART



DCDB BRANCHES

DUMAGUETE MAIN BRANCH
DCDB Building, Dr. V. Locsin corner Cervantes Streets
Dumaguete City, Negros Oriental 6200 Philippines
Tel Nos.: (035) 225-3891 to 92; 422-9223 to 24
Fax No: (035) 225-4355
E-mail: dumaguete.main@gmail.com/dumaguetebank.ho@gmail.com
Website: www.dumaguetebank.com

VALENCIA BRANCH
DCDB Building, Sayre Highway, Hagkol
Valencia City, Bukidnon 8709 Philippines
Tel Nos.: (088) 315-0114; 828-2097
E-mail: info.dcdb.valencia@dumaguetebank.com

QUEZON BRANCH
DCDB Building, BUSCO Millsite
Quezon, Bukidnon 8715 Philippines
Tel No: (088) 222-5533;
E-mail: info.dcdb.quezon@dumaguetebank.com

LAPU-LAPU BRANCH
DCDB Building, Quezon National Highway,
Bo. Pusok, Lapu-lapu City 6015 Philippines
Tel Nos.: (032) 340-2754; 495-3402
Fax No: (032) 340-0811
E-mail: dcdblapulapu004@gmail.com/dcdb.lapulapu@yahoo.com

SIBULAN BRANCH
DCDB Building, North National Highway
Sibulan, Negros Oriental 6201 Philippines
Tel Nos.: (035) 226-6127; 419-8730
E-mail: dcdbsibulan@gmail.com

Savings Account

REGULAR SAVINGS ACCOUNT

ATM (DCDB e-Purse)
P 500.00 initial deposit and maintaining balance

Student Savers (ATM)
P 200.00 initial deposit and P 100.00 maintaining balance
> open to College students
> (18 yrs. old and above) with validated school ID

Payroll Account (ATM)
P 100.00 initial deposit

PangKABUHAYAN Savings Account (Passbook + ATM)
P 5,000.00 initial deposit
P 2,000.00 maintaining balance

Batang Tipid (Passbook)
P 100.00 initial deposit and maintaining balance
> ages 7-17 years old

SSS Pensioner's Account (Passbook)
P 100.00 initial deposit and maintaining balance

Regular Savings Account (Passbook)
P 1,000.00 initial deposit and maintaining balance

P1,000 ADB TO EARN INTEREST

SPECIAL SAVINGS ACCOUNTS

M3 (Monthly Money Maturity) (Passbook)
P 20,000.00 initial deposit and maintaining balance
term – 30 days renewable

PSD (Preferred Savings Deposit Account) (Passbook)
P 50,000.00 initial deposit and maintaining balance
term – 30 days, 60 days or 91 days renewable

INTEREST - prevailing interest rate

Current Accounts

DCDB TRIO Checking Account (ATM+Passbook+Checkbook)

P 10,000.00 initial deposit/maintaining balance
P 20,000.00 ADB to earn interest
> for individual accounts only

DCDB Dual Checking Account (Passbook+Checkbook)

P 10,000.00 initial deposit/maintaining balance
P 15,000.00 ADB to earn interest

Personal Current Account

P 2,000.00 initial deposit/maintaining balance
P 15,000.00 ADB to earn interest

Corporate Current Account

P 10,000.00 initial deposit/maintaining balance
P 20,000.00 ADB to earn interest

Time Deposit

Certificate of Time Deposit (Certificate)

P 5,000.00 minimum deposit
term – 30 days renewable

Loan Products

Agricultural Loan/Line

a. Sugarcane Farming/Rice/Corn
b. Tractor Financing
c. Purchase of truck for hauling sugarcane
d. Poultry Business/Live Stock

Commercial Loan/Line

a. General Merchandising Business
b. Bakery & Fast Food Business
c. Trading/Buy & Sell Business
d. Drug Store Business
e. Rice & Corn Milling Business
f. Electrical Sales & Services
g. Sugar Quedan Trading

Industrial Loan/Line

a. Tire Recapping & Selling
b. Sand & Gravel and Hollow Blocks Business
c. Construction & Supplies Business
d. Dressing Plant and Shipping/Trucking Business

Real Estate Loan/Line

a. Subdivision Development (Socialized or Low Cost)
b. Construction of Commercial Building/Apartment/ Town Houses
c. Memorial Park Development

Consumption Loan/Line

a. Purchase of Land/House & Lot
b. Renovation of Residential Building
c. Purchase of ROPA
d. Car Loans/Purchase of Service Vehicle
e. Medical Expenses
f. Educational Expense
g. Pocket Money Going Abroad
h. Salary Loan/SSS Pension Loan

MAJOR STOCKHOLDERS

Name	Nationality	No. of Shares	% to Total Outstanding Shares
J.O.S Holdings, Inc.	Filipino	230,907	20.92%
Cebu International Finance Corp.	Filipino	111,537	10.11%
Edward Y.R. Sung	Filipino	40,858	3.70%
Dumaguete SVS Capital Vensures, Inc.	Filipino	35,546	3.22%
Silvestre Sung	Filipino	29,589	2.68%
Southern Masaling Corp.	Filipino	27,554	2.50%
Nicolas S. Ramas Uypitching	Filipino	23,710	2.15%
Chin Koc Sy	Filipino	24,513	2.22%
Danford S. Sy	Filipino	23,670	2.14%
Jonathan D. Sy	Filipino	21,886	1.98%
Juio D. Sy Jr.	Filipino	21,886	1.98%
Dirkie Y. Palma	Filipino	19,825	1.80%
Gerard L. Uymatiao	Filipino	19,916	1.80%
Gilbert Paul L. Uymatiao	Filipino	19,725	1.79%
Francisco A. Diaz	Filipino	19,022	1.72%
Alvin Y. Tan Unjo	Filipino	17,502	1.59%
Miguel A. Diaz Jr.	Filipino	18,025	1.63%
George L. Uymatiao	Filipino	17,365	1.57%
CIFC Holdings, Inc.	Filipino	20,463	1.85%
Karen Ramas Uypitching	Filipino	16,617	1.51%

CORPORATE SOCIAL RESPONSIBILITY

DCDB, your responsible partner for growth. Committed not just to its business partners but to the community we serve by creating hope and opportunities through sponsorships, feeding, school supplies distribution, computer donations, construction of CR for public schools and all other ways of giving back to the community.