COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

2 4 8 2 7

Company Name

RURAL BANK OF GUINOBATAN, INC.

Principal Office (No./Street/Barangay/City/Town)Province)

MABINI ST., GUINOBATAN, ALBAY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
rbguinobatan@yahoo.com.ph	(052)-484-6439	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
16	2nd Monday of May	31-Dec

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
xerenda i. adel			0915-959-4321

Contact Person's Address

purok 3, san rafael guinobatan albay

Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated

RURAL BANK OF GUINOBATAN, INC.
SINCE 1964

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Rural Bank of Guinobatan, Inc.** is responsible for the preparation and fair presentation of the financial statements for the year ended December 2016, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances

The Board of Directors reviewed and approved the financial statements and will be submitted the same documents to the stockholders.

A.R. Sayson & Associates, CPAs, the independent auditors, appointed by the stockholders has examined the financial statements of the company in accordance with Philippine Standard on Auditing, and in its report to stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed under oath by the following:

PAULO R. HONRADO
President

JOSELINE M. PALENCIA
Treasurer

SUBSCRIBED AND SWORN to before me in GUINOBATAN, ALBAY this APR 17 2017 day of ____________ 2017, affiants exhibited to me their Community Tax Certificates Nos:

Name	Comm. Tax Cert. No.	Date/Place of Issue
Paulo R. Honrado	02081274	01/04/2017 Guinobatan, Albay
Joseline M. Palencia	301649714	01/25/2017 Guinobatan, Albay

MA... JR.
NOTARY ... ER 31, 2017
PTR ... 04/2017
IBP ... N. 04/2017
TIN: ...-541-185-000
Roll No. 52422

RURAL BANK OF GUINOBATAN, INC.
SINCE 1964 Mabini Street, Guinobatan, Albay 4503 (052) 484-6430; 484-6510

STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN

Rural Bank of Guinobatan, Inc. Is responsible for all information and representations contained in the Annual Income Tax return for the year ended December 31, 2016. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the management is responsible for all information and representation contained in all other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, **Rural Bank of Guinobatan, Inc.** affirms that the attached audited financial statements for the year ended December 31, 2016 and the Accompanying Annual Income Tax Return are in accordance with the books and records of **Rural Bank of Guinobatan, Inc.** complete and correct in all material respects. Management likewise affirms that:

a. the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, the pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

b. any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards of the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue regulations No. 8-2007 and other relevant issuances;

c. **Rural Bank of Guinobatan, Inc.** Has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

PAULO R. HONRADO
President

27 APR 2017

A.R. Sayson & Associates
Certified Public Accountants

Legaspi Office:
Rm 211 PVLB Bldg
Peñaranda St. Legazpi City
Albay 4500, Philippines

Telefax (+6352) 480-5116
[illegible]
BOA/PRC Reg.No. 0511 up to Dec 2018
BSP Accredited

To the Board of Directors and Stockholders of
Rural Bank of Guinobatan, Inc.
Mabini St. Guinobatan, Albay

Gentlemen:

We have audited the financial statements of **Rural Bank of Guinobatan, Inc.** for the year ended December 31, 2016, on which we have rendered the attached report dated April 11, 2017.

In compliance with SRC Rule 68, we are stating that the said Bank/Company has a total number of fourteen (14) stockholders owning one hundred (100) or more shares each.

A.R. SAYSON & ASSOCIATES, CPAs
TIN 005-716-970
BOA/ PRC No. 0511 valid until December 2018
CDA A.N. CEA-0064-AF valid until January 21, 2020

RANDY M. PADUA
Managing Partner
CPA Certificate No. 50106
BOA/ PRC No. 0511 valid until December 2018
P.T.R. No. 1425556, January 05, 2017, Legazpi City, Albay
BIR Acc. No. 10-002027-001-2016 valid until February 2, 2019
TIN NO. 170-086-473

April 11, 2017

A.R. Sayson & Associates
Certified Public Accountants

Legaspi Office
Rm 211 PVLB Bldg
Peñaranda St. Legazpi City
Albay, 4500 Philippines

Telefax No. (052) 480-5116
BOA/PRC Reg No. 0511
BSP Accredited

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
RURAL BANK OF GUINOBATAN, INC.
Mabini St., Guinobatan Albay

Report on the Audit of the Financial Statements

We have audited the financial statements of the **Rural Bank of Guinobatan, Inc.** which comprise the statements of financial position as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in capital funds, and cash flows for each of the two years in the period ended December 31, 2016, and a summary of significant accounting policies and other explanatory notes.

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

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, the *Code of Ethics for Professional Accountants in the Philippines (Philippine Code of Ethics),* and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the presentation of financial statements that are free from material misstatements, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

27 APR 2017

Independent Auditor's Report
To the Board of Directors and Stockholders of
Rural Bank of Guinobatan, Inc.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Report on the Supplementary Information

Our audit was conducted for the purpose of forming on the basic financial statements as a whole. The supplementary information on taxes and licenses in Note 25 to the financial statements is presented for the purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such 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.

A.R. SAYSON & ASSOCIATES, CPAS
Partnership Reg. Cert. No. A200200343
TIN#005-716-970
BOA/PRC No. 0511 valid until December 2018
BSP Accredited

RANDY M. PADUA
Managing Partner
CPA Certificate No. 90:06
BOA/ PRC No. 0511 valid until December 2018
P.T.R. No. 1425556. January 05, 2017. Legazpi City, Albay
BIR Acc. No. 10-00202 7-001-2016 valid until February 2, 2019
TIN NO. 170-086-473

April 11, 2017
Legazpi City

CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for RURAL BANK OF GUINOBATAN, INC. for the period ended December 31, 2016

In discharging this responsibility, I hereby declare that I am an Individual CPA Practitioner and was contracted to perform this service by RURAL BANK OF GUINOBATAN, INC.

Furthermore, in my compilation services for preparation of the Financial Statements and notes to the Financial Statements, I was not assisted by or did not avail of the service of A.R. SAYSON & ASSOCIATES who is the external auditor who rendered the audit opinion for the said Financial Statements and notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.

JON CELSO K. APUYAN, CPA
TIN No. 280-346-073
PRC License No. 0127592
PTR No. [illegible] Issued January 11, 2017
at Legazpi City, Albay
BOA Accreditation No. 6455
Valid Until December 31, 2018
BIR Accreditation No. 10-006681-001-2017
Valid Until February 14, 2020

FEB 28 2017

SUBSCRIBED AND SWORN to before me, this ____________ at Guinobatan, Albay - Philippines

MART [illegible] JR.
NOTARY PUBLIC

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Book No. 78
Series of 2017

RURAL BANK OF GUINOBATAN, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31

	Notes	2016	2015
RESOURCES			
Cash and Cash Equivalents	2,5	P 6,414,745	P 6,702,697
Due from Bangko Sentral ng Pilipinas	2,6	9,984,591	9,047,837
Due from Other Banks	2,5	52,850,033	74,494,837
Held-to-Maturity Securities, net	2,7	65,800,000	65,040,000
Loans and Receivables, net	2,8	249,658,617	186,980,184
Held-for Sale Assets, net	2,9	9,938,128	9,711,663
Bank Premises, Furniture, Fixtures and Equipment, net	2,10	19,079,482	18,178,550
Other Resources, net	11	5,637,891	5,663,372
		419,363,487	375,819,140
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES			
Savings	2,12	308,912,617	279,776,241
		308,912,617	279,776,241
Bills Payable	13	26,036,131	23,156,299
Accrued Taxes, Interest and Other Expenes	2,14	4,788,892	3,828,702
Retirement Liability	19	2,933,163	4,246,108
Other Liabilities	15	7,301,687	8,708,082
		349,972,491	319,715,432
Capital Funds	16	69,390,995	56,103,708
		P 419,363,487	P 375,819,140

(See accompanying Notes to Financial Statements)

RURAL BANK OF GUINOBATAN, INC.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	Notes	2016	2015
INTEREST INCOME	2,17.1		
Loans		P 53,472,509	P 56,653,535
Investments		1,496,629	1,163,823
Deposits with banks		480,080	128,742
		55,449,217	57,946,100
INTEREST EXPENSE	2,17.2		
Deposits		6,516,918	8,437,631
Bills payable and other borrowings		184,101	1,443,117
		6,701,019	9,880,748
NET INTEREST INCOME BEFORE IMPAIRMENT LOSSES		48,748,198	48,065,352
PROVISION FOR IMPAIRMENT LOSSES	2,8	27,248	5,425,929
NET INTEREST INCOME		48,720,950	42,639,423
OTHER OPERATING INCOME	2,18.1		
Service Charge/Commissions/Fees		23,950,247	17,310,716
Other operating income		1,453,238	971,496
		25,403,485	18,282,212
OTHER OPERATING EXPENSES			
Compensation and fringe benefits	18.2, 19	33,520,593	24,491,257
Occupancy and equipment-related expenses	18.3	7,138,997	6,117,001
Other operating expenses	18.4	20,898,819	20,124,603
		61,558,409	50,732,861
INCOME BEFORE INCOME TAX		12,566,026	10,188,774
PROVISION FOR INCOME TAX	2,20	1,362,596	1,035,110
NET INCOME		P 11,203,431	P 9,153,664
EARNINGS PER SHARE	2	P 19	P 18

(See accompanying Notes to Financial Statements)

RURAL BANK OF GUINOBATAN, INC.

STATEMENTS OF CHANGES IN EQUITY
DECEMBER 31

	Note	Share Capital	Surplus Free	Surplus Reserved	Total
Balance at January 1, 2015		P 24,025,000	P 22,845,438	P 1,000	P 46,871,438
Issuance of Shares	16	25,975,000	-	-	25,975,000
Stock Dividends	16	-	(23,496,320)	-	(23,496,320)
Cash Dividends			(2,162,250)	-	
Net Income for the year		-	9,153,664	-	9,153,664
Reclassification of Accounts		-	-	-	-
Adjustments		-	(237,824)	-	(237,824)
Balance at December 31, 2015		**P 50,000,000**	**P 6,102,708**	**P 1,000**	**P 56,103,708**
Issuance of Shares	16	-		-	-
Stock Dividends Distributable	16	-	(8,500,000)	8,500,000	-
Cash Dividends		-	(2,162,252)	-	(2,162,252)
Net Income for the year		-	11,203,431	-	11,203,431
Reclassification of Accounts		-		-	-
Adjustments	16	-	4,246,108	-	4,246,108
Balance at December 31, 2016		**P 50,000,000**	**P 10,889,995**	**P 8,501,000**	**P 69,390,995**

(See accompanying Notes to Financial Statements)

27 APR 2017

RURAL BANK OF GUINOBATAN, INC.

STATEMENTS OF CASHFLOWS
FOR THE YEARS ENDED DECEMBER 31

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P 12,566,026	P 10,188,774
Adjustment for			
Depreciation	10	5,432,243	4,436,167
Provision for credit losses	8	27,248	4,262,361
Adjustment on Property and Equipment	10	-	-
Writeoff of loans	8	(1,373,279)	(1,021,408)
Adjustment	16	12,746,108	(237,824)
Operating income before changes in assets and liabilities		29,398,347	17,628,070
Changes in operating assets and liabilities			
(Increase) decrease in			
Due from Bangko Sentral ng Pilipinas	2,6	(936,754)	(1,176,006)
Loans and receivables, gross	2,8	(61,332,401)	50,480,305
Held-for sale assets	2,9	(226,465)	(8,280,384)
Other resources	11	25,481	(130,041)
Increase (decrease) in			
Deposit Liabilities	2,12	29,136,376	32,511,793
Accrued taxes, interest and other expenses	2,14	960,190	764,303
Retirement Liability		(1,312,945)	-
Other liabilities	15	(1,406,395)	(6,649,445)
Cash generated/ (used) from operation		(5,694,565)	85,148,595
Income Tax Paid	20	(1,362,596)	(1,035,110)
Net cash provided by (used in) operating activities		(7,057,161)	84,113,485
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (Increase) in bank premises, furniture, fixtures and equipment, net	2,10	(6,333,176)	(6,550,271)
Decrease (Increase) in Held-to-Maturity-Securities	2,7	(760,000)	(30,000,000)
		(7,093,176)	(36,550,271)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (Decrease) in bills payable	13	2,879,832	(25,383,532)
Paid in Surplus / Change in Capital	16	-	25,975,000
Stock Dividends Declared	16	(10,662,252)	(25,658,570)
Net cash provided (used in) by financing activities		(7,782,420)	(25,067,102)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(21,932,756)	22,496,112
CASH AND CASH EQUIVALENTS			
January 1		81,197,532	58,701,421
December 31	2,5	P 59,264,776	P 81,197,532

(See accompanying Notes to Financial Statements)

NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016

Note 1- CORPORATE INFORMATION

Rural Bank of Guinobatan, Inc. (the Bank) is a company incorporated in the Republic of the Philippines on March 25, 1964 with SEC registration no. 24827 with principal office at Mabini Street, Guinobatan, Albay. The Bank is engaged in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprise.

The Bank operates as a rural bank providing services such as deposit-taking and lending of money to borrowers, and with different markets, under the regulation and supervision of the Bangko Sentral ng Pilipinas (BSP). As of December 31, 2016 the bank has four (4) branches including HO and six (6) micro – banking offices (MBO) – all within Bicol Region.

The Bank has 148 regular employees as of December 31, 2016.

On April 11, 2017, the Board of Directors of the Bank approved and authorized the issuance of these audited financial statements as of and for the year ended December 31, 2016.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below to facilitate the understanding of data in the financial statements. Unless otherwise state, these policies have been consistently applied to all the years.

Basis of Preparation

2.1 Statement of Compliance
The financial statements of the Bank have been prepared in compliance 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 Boards. Also, the bank adopted the new Financial Reporting Package (FRP) prescribed by the Bangko Sentral ng Pilipinas for all banks as per BSP Circular No. 512 dated February 3, 2006.

2.1.1 Statement of Presentation
The Bank presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statements of financial position date (current) and more than one year after the statements of financial position date (non-current) is presented.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Bank.

2.2 Reporting Currency
The financial statement are stated in Philippine pesos, the Bank's functional and presentation currency and amounts are rounded off to the nearest peso, except when otherwise indicated.

2.3 Changes in Accounting Policies and Disclosure
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended Philippine Accounting Standard (PAS), PFRS and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which were adopted as of January 1, 2012.

2.4 New Standards and Interpretations
- PAS 24, *Related Party Transactions* (Amendment)
  PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition the amendment introduces an exemption from the general

related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

2.5 Improvements to PFRSs

- PFRS 7, *Financial Instruments: Disclosures*
  The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

Amendments to Standards

- Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments*
- PAS 32, *Financial Instruments; Presentation* (Amendments) - *Classification of Rights Issues*
- Philippine Interpretation IFRIC-14 (Amendments), *Prepayments of a Minimum Funding Requirement*
- *PAS 39, "Financial Instruments: Recognition and Measurement- Novation of Derivatives an Continuation of Hedge Accounting"*
- *PAS 36, "Impairment of Assets-Recoverable Amount Disclosures for Nonfinancial Assets"(Amendments)*
- *Philippine Interpretation IFRIC 21, "Levies"*

Effective in 2015

- PAS 19, *Employee Benefits* (Amendments)
- PFRS 2, *Share-based Payment- Definition of Vesting Condition*
- PFRS 3, *Business Combinations- Accounting for Contingent Consideration in a Business Combination* (Amendment)
- PFRS 8, *Operating Segments-Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* (Amendment)
- PAS 16, *Property, Plant and Equipment Revaluation Method- Proportionate Restatement of Accumulated Depreciation"* and PAS 38, *Intangible Assets: Revaluation Method- Proportionate Restatement of Accumulated Amortization* (Amendment)
- PAS 24, *Related Party Disclosures- Key Management Personnel*

Effective in 2016

- PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets- Clarification of Acceptable Methods of Depreciation and Amortization* (Amendment)
- PAS 27, *Separate Financial Statement- Equity Method in Separate Financial Statements* (Amendment)
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations-Changes in Methods of Disposal* (Amendment)
- PFRS 7, *Financial Instruments: Disclosures- Servicing Contracts*
- PAS 19, *Employee Benefits- Regional Market Issue Regarding Discount Rate*
- PAS 34, *Interim Financial Reporting- Disclosure of Information Elsewhere in the Interim Financial Report* (Amendment)

2.6 Summary of Significant Accounting Policies

Financial Instruments - Initial Recognition and Subsequent Measurement

2.6.1 Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and loans are recognized when cash is received by the Bank or advanced to the borrowers

2.6.2 Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial instrument includes transaction costs. The bank classifies its financial assets in the following categories: financial assets at FVPL, AFS investments, HTM investments, Unquoted Debt Securities classified as Loans and Loans and Receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognitions and re-evaluates this designation at every statement of financial reporting date. On the other hand, the Bank classifies its financial liabilities carried at amortized cost. Other financial liabilities at amortized cost include deposits and accruals arising from operations. As of December 31, 2015 and 2014, the Bank has no financial assets and liabilities at

FVPL and AFS investments.

Currently, the financial assets and liabilities categories that are relevant to the Bank are described as follows:

a) *Due from BSP and other banks and Loans and Receivables*

These are non-derivative financial assets classified under loans and receivables category with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, AFS investment or HTM investments.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses reduced by unearned discounts. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the EIR. The amortization is included in the Interest Income in the profit or loss. The losses arising from impairment of such loans and receivables are recognized in provision for credit losses in the profit or loss.

b) *Other Financial Liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. This accounting policy pertains to deposit liabilities, bills payable, accrued interest expenses on financial liabilities, accounts payable and other liabilities, payables and accruals.

Financial liabilities are derecognized from the Statement of Financial Position when the obligations are extinguished either through discharge, cancellation or expiration.

2.7 Determination of fair value

The fair value for financial instruments traded in active markets at the statement of condition date is based on their quoted market price or dealer price quotations (bid price for long positions and asking price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

2.7.1 Derivatives

Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statement of income and are included in 'Trading and securities gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For purpose of hedge accounting, hedges, if any, are classified primarily as either:

a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or
b) a hedge of the exposure variability in cash flows attributable to an asset or a liability or a forecasted transaction (cash flow hedge)

2.7.2 Designated financial assets or financial liabilities at FVPL

Designated financial assets or financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- or the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPL are recorded in the statement of condition at fair value. Changes in fair value of financial assets and liabilities designated at FVPL are recorded in 'Trading and securities gains - net'. Interest earned or incurred is recorded in interest income or expense, respectively, while any dividend income is recorded in other operating income according to the terms of the contract, or when the right of the payment has been established.

2.7.3 Other financial assets or financial liabilities held-for-trading (HFT)
Other financial assets or financial liabilities HFT (classified as FVPL investments) are recorded in the statement of condition at fair value. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income when the right to receive payment has been established.

Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term.

2.7.4 Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized at fair value through profit or loss

The Bank assesses whether embedded derivatives are required to be separated from host contracts when the Bank first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Bank determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative and the host contract and whether the change is significant relative to the previously expected cash flow on the contract.

2.7.5 HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. Where the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified to AFS investments. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate (EIR) amortization method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income on investment securities' in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'.

2.7.6 Amounts due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA), loans and receivables
These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'FVPL investments', designated as 'AFS investments' or 'designated financial assets at FVPL'.

After initial measurement, 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA' and 'Loans and receivables' are subsequently measured at amortized cost using the EIR amortization method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in the 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

2.7.7 AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as FVPL investments, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net unrealized gain (loss) on AFS investments' in other comprehensive income (OCI).

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

2.7.8 Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL and comprises 'Deposit liabilities', 'Subordinated notes', 'Treasurer's, cashier's and manager's checks', 'Accrued interest payable', 'Accounts payable', 'Bills purchased-contra', 'Other credits', 'Due to BSP', 'Dividends payable', 'Due to Treasurer of the Philippines' and 'Deposits for keys-Safety deposit boxes (SDB)', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

2.8 Derecognition of Financial Instruments

2.8.1 Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:
- The rights to receive cash flows from the asset have expired; or
- The Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred control over the asset.

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

2.9 Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of condition. The corresponding cash received, including accrued interest, is recognized in the statement of condition as a loan to the Bank, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of condition. The corresponding cash paid, including accrued interest, is recognized in the statement of condition as SPURA and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR amortization method.

2.10 Offsetting Financial Instruments

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

2.11 Impairment of Financial Assets

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

Loans and Receivables

For Loans and Receivables carried at amortized cost, the Bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually-assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for Banks of such assets by being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continue to be recognized are not included on a collective assessment of impairment.

If there is an objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of allowance account and the amount of loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result for foreclosures less cost for obtaining and selling the collateral, whether or not foreclosures or probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the profit or loss. Interest income continues to be recognized based on the original EIR of the asset. Loans and Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to provision for credit losses account in the profit or loss.

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

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans, if any to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in provision for credit losses in the profit or loss.

AFS investments
For AFS investments, the Bank assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.
In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on the investment previously recognized in the statement of income.

Financial asset carried at amortized cost
For loans and receivables, due from BSP, due from other bank and HTM investments, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

2.12 Revenue and Expense Recognition
Revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangement. The following specific recognition criteria must also be met before revenue is recognized.

2.12.1 Interest income and expense
For all financial instruments measured at amortized cost interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. When calculating the EIR the Bank estimates cash flows from the financial instrument (for example, prepayment options), and includes any fees or incremental costs that are directly attributable to the instrument and are integral part of EIR but not future credit losses. The adjusted carrying amount is calculated based on the original EIR.

Unearned discounts on loans are recognized as income over the terms of the loans using straight line method.

Once a financial asset or a group of similar financial assets have been written down as a result of an impairment loss, interest income is recognized using the original EIR applied to the new carrying amount. For loan investments that have been delinquent, interest income are no longer accrued and interest income on the past due accounts is recognized only upon actual collection pursuant to BSP/MB Regulations.

2.12.2 Service Fees and commission income, penalties and bank charges
Service fees are recognized as earned over the term of the credit lines granted to each borrower. Commissions are accrued when earned. Penalties and bank charges are recognized upon only collection or where there is a reasonable degree of certainty as to their collectability.

2.12.3 Profit from assets sold or exchange
Is recognized when the risk and rewards to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in the non-interest income account in the statements of

comprehensive income

2.12.4 Other Income
Is recognized when earned

2.13 Cash and Cash Equivalents
For purposes of reporting cash flows, Cash and cash equivalents consist of Cash and other cash items and Due from other banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2.14 Bank premises, furniture, fixtures and equipment
Bank premises, furniture, fixtures and equipment are initially measured at cost less any subsequent accumulated depreciation, amortization and impairment losses. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of Bank premises, furniture, fixtures, and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standards of performance of the existing asset, will flow to the Bank. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the properties. The useful lives of the properties are as follows

Building/Leasehold improvements	20 to 25 years
Furniture, fixtures and equipment	1 to 10 years
Transportation equipment	5 years

Cost of minor repairs and maintenance are charged to operations. Renewals and betterments which improve the original assessed standard of performance of the property are capitalized to the appropriate property account. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and impairment in value are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Pursuant to International Accounting Standards No. 36, the carrying values of the bank premises, furniture, fixtures and equipment are reviewed by the Bank's management for impairment when events or a change in circumstances indicate the carrying value may not be recoverable. If such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating assets are written down to their reasonable amount.

The asset's residual values and useful lives are reviewed at each reporting date.
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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.
Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income.

2.15 Chattel Mortgage Properties
Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be 5 years.

2.16 Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

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

The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'Amortization of intangible asset'.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between, the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

2.16.1 License fees
License fees arose from acquisition of branches from a local bank. License fees have indefinite useful lives and are tested for impairment on an annual basis.

2.16.2 Software costs
Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over 5 years but maybe shorter depending on the period over which the Bank expects to use the asset.

2.17 Impairment of non-financial assets
Bank premises, investments, and other long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The excess shall be recognized as impairment loss in the statement of operations. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction which value in use is the present value of estimated cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.
Recoverable amounts are estimated for individual assets or, if it is possible, for the cash-generating unit to which the assets belongs. Impairment losses recognized in prior years are reversed when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded as income to the extent previously recognized as expense in the statement of operations.

2.18 Foreclosed assets
Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel), as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value. In the determining the fair value of assets held for sale, sales prices are analyzed by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as impairment loss in the statement of income.
Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification:

- Investment property is accounted for using the cost mode under PAS 40
- Bank-occupied property is accounted for using the cost model under PAS 16
- Financial assets are classified as available-for-sale

2.19 Provision and Contingencies
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and where appropriate the risk specific to the volatility.

When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

2.20 Equity

Capital Stock is measured at par value for all shares issued and outstanding. Incremental cost incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed share capital is reported in equity less the related subscription receivable not collectible currently.

Surplus represents cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effects of changes in accounting policy and other capital adjustments.

2.21 Dividends

Dividends are recognized as a liability in the Bank's financial statements in the year in which they are approved by the Board of Directors and the Bangko Sentral ng Pilipinas (BSP).

2.22 Leases

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

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

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

2.22.1 Bank as a lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are reflected in the statement of income under 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

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

2.22.2 Bank as a lessor

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

2. 23 Income Taxes

Income tax on profit or loss for the year comprises current and deferred tax.

Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to other comprehensive income items recognized directly in the statement of comprehensive income.

Current income tax
Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

Deferred income tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluation. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

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

2.24 Related party relationships and transactions
Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Transactions between related parties are accounted for at arm' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

2.25 Employee Benefits

Post-employment benefits
The post-employment expense is determined using the Projected Unit Credit Method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Post-employment expenses include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees. Cumulative actuarial gains and losses in excess of the 10% of the greater between present value of the defined benefit obligation and fair value of any plan assets are amortized over the expected average remaining working lifetime of the employees and recognized as part of retirement benefit expense.

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Any assets resulting from this calculation are limited to past service cost, plus the present value of available refunds and reductions in future contributions to plan.

Short-term benefits

The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Company to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses, non-monetary benefits, and other short-term benefits.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either, terminating the employment according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits failing due more than 12 months after the balance sheet date are discounted to present value.

2.26 Earnings per share

Earnings per share (EPS) is computed by dividing the net income by the weighted number of common shares outstanding during the year. Basic EPS is determined by dividing the net income for the year attributable to common shares by the weighted average number of common shares outstanding during the year.
Diluted EPS is computed by dividing net for the year attributable to common shares by the weighted average number of outstanding and dilutive potential common shares. Basic and diluted EPS are given retroactive adjustments for any dividends declared in the current year, if any.

2.27 Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank and the BSP. Dividends for the year that are approved after the statement of condition date are dealt with as an event after the statement of condition date.

2.28 Subsequent Events

Post year-end events that provide additional information about the Bank's position at the statement of condition date (adjusting events) are reflected in the financial statements.

Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Note 3 – SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

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

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

3.1 Judgments

3.1.1 Operating leases

Bank as lessor

The Bank has entered into leases on its properties. The Bank has determined based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Banks as lessee
The Bank has entered into leases on premises it uses for its operations. The Bank has determined, based on the evaluation of the terms and condition of the lease agreement, that all significant risks and rewards of ownership of the properties it leases on operating lease are not transferable to the Bank.

3.1.2 Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of condition cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These estimates may include consideration of liquidity and models inputs such as correlation and volatility for longer dated financial instruments.

3.1.3 HTM investments
The classification to HTM investment requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio to AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

3.1.4 Contingencies
The Bank is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Bank's defense in this matter and is based upon an analysis of potential results. Management does not believe that the outcome of this matter will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding.

3.2 Estimates

3.2.1 Credit losses on loans and receivables
The Bank reviews its loans and receivables at each statement of condition date to assess whether an impairment loss should be recorded in the statement of income. In particular, management estimates the amount and timing of future cash flows based on a number of factors and calculates the impairment loss. Actual results may differ, at which event; the Bank adjusts the impairment loss and ensures that allowance for it remains adequate.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

As of December 31, 2015 and 2014, the carrying value of loans and receivables and related allowance for credit losses are disclosed in Note 8.

3.2.2 Impairment of nonfinancial assets
Property and equipment, chattel mortgage properties, and intangible assets
The Bank assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

3.2.3 Fair value of investment properties
The fair values of the Bank's investment properties have been derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

3.2.4 Present value of retirement obligation
The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of this plan, such estimates are subject to significant uncertainty.

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

3.2.6 Contingent liabilities
The Bank is a defendant in legal actions if any, arising from normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements.

3.2.7 Useful life of Property and Equipment
The Bank estimates the useful lives of Property and Equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of the property and equipment 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.

3.2.8 Realizable Amount of Deferred Tax Assets
The bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Note 4 – FINANCIAL RISK MANAGEMENT

The Bank is exposed to certain risks. Risk management is monitored and managed by the management who implements the Bank's overall strategy, develop risk management policies and maintain the risk management system. The management keeps the Board of Directors adequately informed.

The Bank's risk management policies are designed to identify and analyze these risks, set limits and controls, and to monitor the risks and adherence to desired limitations. The management regularly reviews its risk policies to set the desired practices.

1. Credit risk

The Bank is exposed to credit risk which arises from counterparty's failure to meet the terms of any contract with the bank or otherwise perform as agreed. It arises anytime bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Credit risk is not limited to loan portfolio.

Loans and receivables

The credit risk on loans and receivables are the possibility of non-payment or the probability of default by the counterparty. This probability is being evaluated by the management using BSP standard classifications as follow:

- Unclassified loans – these are loans that do not have a greater-than-normal risk and do not possess the characteristics of classified loans as classified below. The borrower has the apparent ability to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.

- Loans especially mentioned – these are loans and advances that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

- Substandard – these are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There exists in such loans the possibility of future loss to the Bank unless given closer supervision. Loans under this category must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral

- Doubtful – these are loans or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

- Loss – these are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

	2016	In %	2015	In %
Unclassified	P 253,341,139	94.10	P 192,705,231	92.70
Doubtful	15,282,414	5.68	14,213,899	6.83
Loss	588,315	0.22	960,337	0.47
	P 269,211,868	100.00	P 207,879,467	100.00

Allowance for impairment amounted to P 19,553,251 and P 20,899,283 for the year 2016 and 2015 which are about 7.26% % and 10.05% of loans, respectively.

Impairment and provisioning policies

To limit and manage the risk, the Bank normally relies on BSP recommendations especially for the setting up of impairment and provisions for probable losses.

Debt securities and other bills

Investing in debt securities and other bills which will mature in one (1) year or less is a method of managing credit risk exposures because market changes in such investment is low. Such investment is also being purchased from a reputable and stable broker.

Risk limit control and mitigation policies

The bank manages, limit and control the concentration of credit risk wherever they are identified. The Bank manages credit risk by placing limits on the amount of risk accepted in relation to a borrower or group of borrowers. Such risks are monitored on a regular basis and subject to an annual or more frequent review, when considered necessary.

Loans are approved by the management under the guidance of the Board of Directors by evaluating the ability of existing and potential borrowers to meet interest and principal payments. Changes in limits are done whenever necessary.

a) Collateral

To minimize credit risk, the Bank requires security such as real estate or chattel mortgage whenever possible

Details of loans by security are as follow:

	2016		2015	
	Amount	%	Amount	%
Unsecured	P 185,993,604	69.09	P 182,938,156	88.00
Secured	83,218,264	30.91	24,941,311	12.00
	P 269,211,868	100.00	P 207,879,467	100.00
Secured				
Real estate mortgage	33,532,715	40.30	23,059,900	92.45
Chattel mortgage	38,525,549	46.29	1,862,849	7.46
Others	11,160,000	13.41	18,562	0.09
	83,218,264	100.00	P 24,941,311	100.00

b) Repossessed or foreclosed properties

Repossessed or foreclosed properties are sold as soon as practicable and are classified as "Assets held for sale" in the statement of condition.

2. **Foreign exchange risk**
The Bank has no transactions involving foreign exchange.

3. **Interest rate risk**
Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest risk is the risk that the value of a financial instrument will fluctuate because changes in market interest rates.

Changes in the market will have no significant effect because loans are non-quoted in the market. With respect to investment in bills, the maturity period is one (1) year or less and changes in the market will have no significant effect to the bank.

4. **Liquidity risk**

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity risk management process

The management monitors its liquidity by:

- Daily monitoring of liquidity level
- Maintaining highly liquid securities/bills
- Maintaining proper reserve requirement as required by BSP

Funding scheme

Sources of liquidity are regularly monitored by management. During the regular meeting of the Board of Directors held last October 11, 2016, the body approved the Liquidity Funding Plan of the Bank. This policy aims to ensure that the Bank's liquidity shall remain on its healthy level. Liquidity metrics shall be measured, monitored and controlled regularly to ensure sufficient level of liquidity for the Bank. It includes sources of funds in the event of contingency, action plan in the event of liquidity crisis and the different crisis scenarios, triggering events and its action plan.

Non-derivative cash flows

The table below presents the significant cash flows payable by the Bank under non-derivative financial liabilities by expected maturities at the reporting date. The amounts disclosed in the table are the expected undiscounted cash flows which the Bank uses to manage liquidity risk.