2017

AFPSLAI ANNUAL REPORT

Transforming customer experience

CONTENTS

CORPORATE PHILOSOPHY

OUR VISION

By 2022, AFPSLAI is the leader in the financial services industry, such as, in each of the market segment where it operates, in the delivery of quality financial products and related services, and is the role model for good corporate governance practices.

OUR MISSION

Provide financial products and related services to our members that will improve their quality of life.

OUR CORE VALUES

Professionalism

Excellence

Good Governance

Trust and Transparency

Ethics

Malasakit sa mga Miyembro, sa Kumpanya, at sa Bansa

PRODUCTS AND SERVICES

SAVINGS

Capital Contribution Account (CCA)
Savings Deposit Account (SDA)
Pension Account (PA)

LOANS

Salary / Pension Loan
PVAO Pension Loan
Emergency Loan
Multi-Purpose Loan
Commutation Loan
Back-to-Back Loan
Vehicle Loan
Real Estate Loan
Personal Loan
Business Loan
Calamity Loan

OTHER SERVICES

Assistance to Lift Members' Survivors (ALMS)
Automatic Payroll Deduction for CCA
AFPSLAI Pension Express (APEX)
Expected Dividend Advance (EDA)
U-Remit

MESSAGE OF THE CHAIRMAN

I am pleased to present the 2017 Annual Report of the Armed Forces and Police Savings & Loan Association, Inc. (AFPSLAI).

We had a clear strategy for the year which focused on improving our customer service, expanding our network coverage, attaining profitability, and providing clear paths toward sustainable and balanced growth.

We believe that IT business transformation is necessary to enable AFPSLAI to strongly compete in the financial services industry. The largest IT initiative of AFPSLAI, which is the AFPSLAI Voyager, will impact all operational areas of the Association. Once implemented, it will provide efficiency, employee productivity and a more seamless customer experience.

We have also improved our service channels through the establishment of new offices, renovation of existing buildings, and relocation of offices in areas that are more accessible to our valued members. In partnership with our servicing banks, payout facilities were also made available in 2017 for the safety and convenience of our transacting members.

It was also during this year when we re-launched the Calamity Loan, revised our PVAO Pension Loan, and reviewed our interest rates on collateralized loan products. On the other hand, through the conduct of several information drives across the country, we were able to increase our membership base by 3% from last year's figure.

On the financial front, AFPSLAI was able to attain a Net Income of Php 7.51B for the year. With this financial performance, the Association was able to grant a 16% dividend rate and set aside funds for projects that would show appreciation to our members of their continued support for AFPSLAI. These include the Anniversary Raffle Promo, Donations Program, Outreach Program, Scholarship & Educational Assistance Program, and the Rebates Program where Php 250M was distributed to our loyal borrowers in May 2017.

Unfortunately, during the same month, the armed conflict in Marawi City started. The five-month crisis resulted in the death of civilians and government troops. With the commitment to help the families of those who sacrificed their lives for the country, AFPSLAI increased the Assistance to Lift Members' Survivors (ALMS) benefit for members killed-in-action (KIA) from Php 25,000 to Php 50,000. A financial assistance of Php 1.7M was also granted to the AFP which was intended for the death and disability benefits of the soldiers. AFPSLAI also donated Php 3.3M to the AFP Educational Benefit System Office (AFPEBSO) to help the children of KIA personnel achieve their dreams of finishing college.

In partnership with our Credit Redemption Insurance provider, documentary requirements for death claims for KIA cases were relaxed, premium rate was reduced, and financial assistance was increased from Php 30,000 to Php 35,000, with an additional Php 15,000 benefit for uniformed personnel who died in actual combat against the enemies of the State.

Looking ahead, we expect 2018 to be another eventful year where we will strive to solidify our position in the market while working towards elevating customer experience across all platforms. The board will continue to provide strategic direction focusing on expanding our geographical reach, improving product and service offerings, as well as strengthening business partnerships.

I am thankful to our members for patronizing the products of AFPSLAI, to our management team for their work and commitment, and to our partners and other stakeholders for their continued support. I also wish to extend my sincere gratitude to the Board of Trustees for their dedication and support during my tenure.

I wish my successor, LtGen Carlito Galvez Jr AFP, all the very best in taking AFPSLAI to new and greater heights.

GEN REY LEONARDO B GUERRERO AFP (RET)
AFPSLAI Chairman of the Board of Trustees
(October 27, 2017 to April 18, 2018)

REPORT OF THE PRESIDENT & CEO

Keeping our relevance in the market that we serve has become even more challenging in today's competitive business environment. The digital landscape has redefined our members' expectations of what service experience should be. Consumer preference has become even more complex, breaking traditional perspectives of doing business. At our end, we have responded by coming up with growth strategies that are continually evolving based on what the market demands.

In 2017, AFPSLAI marked its 45th year anniversary. And I am proud to note that we at AFPSLAI recorded breakthrough results during the year. After laying down the groundwork in 2016 that jumpstarted a 7-year strategic plan of organizational strengthening and fortifying market leadership, I would say that the milestones we made in 2017 made us on track of making this vision happen. We made full leverage of our 45 long years of being in the business - a vast resource base and service capacity, and the stability that has been solidified by our members' continued trust and confidence.

Underlying this success is the value we put on our members' trust. With a strong commitment to keep this trust, our focus remains on stepping up on member-focused initiatives such as improved products and services; scale up our operations thru improved service networks; institutionalize sound financial management and credit policies, not only to deter risks, but to be able to sustain profitability; create an organizational culture where service excellence becomes the DNA of every employee; and increase social impact thru our CSR Program.

The respectable performance we delivered in 2017 was attained amidst the significantly aggressive market expansion of some competitors. We remained steadfast by innovating our product line and improving our operational capability thru enhanced processes and improved market presence, which enabled us to push our products down to the target market and, thus, boost our loan production. We also continued to embark on IT solutions that will support our expansion on the ground, consistent with our thrust of ensuring a fast and convenient transaction for our members. On top of these, our financial performance for the year reinforced AFPSLAI's sustainability in an increasingly competitive industry. With this gained momentum, we are optimistic that we can further propel our growth and forge an enduring relationship with our members thru responsive product offerings and consistent quality service.

Driving Sustainable Growth

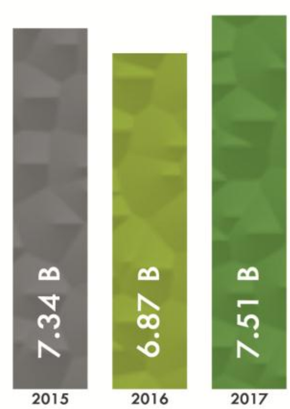
Sustainability remains to be a top priority. We continue to be challenged by competitive forces and regulatory concerns that push us to be more creative in taking decisive steps towards sustainable growth. While some measures may have affected our growth projections in the short term, as was the case when we reduced rates for our consumption loans in January 2016, the sustainability of our market presence was and will always be given primordial consideration. And I believe that AFPSLAI, through the years, has developed its ability to withstand external pressures and will remain focused as it continues to build a solid ground to stand on.

True enough, our financial performance in 2017 was an improvement of the past year. We closed the year 2017 with a **Gross Income** of **Php 10.16B,** up by Php 475M or 5% against the previous year. The increase was mainly driven by the higher income on consumption loans. **Total Expenses** reached **Php 2.65B,** which is 12% lower than the Php 3B allocation (inclusive of the Supplemental Budget and Reserve for Contingency) and 6% lower than the recorded expenses in 2016. Resulting **Net Income** was at **Php 7.51B,** the highest over the last 5 years, which is largely due to the significant improvement in loan generation and prudential limits set in using our allocation for the year. With this performance, AFPSLAI was able to grant a dividend rate of 16.0% per annum for the second straight year. We were also able to set aside funds for rebates in the amount of Php 300M.

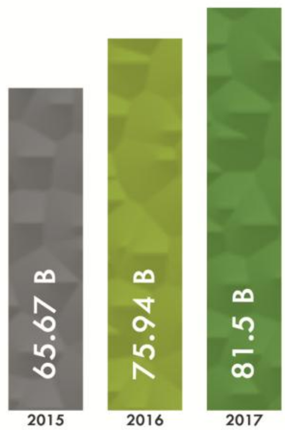
GROSS INCOME

TOTAL EXPENSES

NET INCOME



TOTAL ASSETS



CAPITAL CONTRIBUTION

MEMBERSHIP

Meanwhile, **Total Assets** for the year reached **Php 81.5B,** posting an increase of 7% from the previous year, mainly due to the expansion of our Loans Portfolio. The composition of the Association's asset base is as follows: Loans - 67.9%; Liquid - 24.9%; Fixed - 0.2%; and Other Assets - 7.0%.

Member confidence remains evident as **Capital Contribution (CC)** settled at **Php 47.42B,** posting an increase of 5% from end-2016 level. Note that its growth slowed down in 2017 as we implemented a reduction in quarterly over-the-counter (OTC) placements of regular members, from Php 30K to Php 15K, and stoppage of additional capital contribution from associate members, all effective January 2017. As we control the growth of our CC in favor of the low-cost Deposit Liabilities, our capital structure has improved with capital contribution now comprising 75%, the lowest so far. Also, our Capital Utilization Efficiency rate improved to 89.46% in 2017, better than the past year, with the accelerated growth of Current Loans Portfolio as against the capital base.

OPERATIONAL HIGHLIGHTS

At the core of our vision is our commitment of creating consistent quality customer experience. We intend to extend this in the products and services that we offer, across the various service channels our members go to, and the employees they transact with. We will strengthen our product line to build preference from niche markets, improve service platforms and streamline processes. All these will be done to create a brand of service excellence that will differentiate us from competition.

Our **market expansion strategy** consists of offering our products to a wider segment of our existing as well as untapped market, both non-borrower and non-member alike. Thus, generation of new members was given priority consistent with our thrust of expanding our loan portfolio thru new member-borrower conversion. For the year 2017, we were able to generate 27,416 new members, the highest in a period of 5 years. From this, we were able to convert 12,064 as borrowers. Meanwhile, our **membership base** grew by 3% or a net addition of 15,532, bringing the year-end total to **533,127**.

Loan generation has continued its upward trajectory in 2017 that supported the expansion of our Loan Portfolio. **Loan releases** totaled **Php 51.91B** or an increase of Php 5.70B or 12% from the previous year, sustaining a double-digit growth since 2016. This is also higher by 4% or Php 1.87B as against the target for the year. Correspondingly, loan volume also grew by 10%, the highest since 2011, as the number of borrowers reached 195,450. Various promotional campaigns, such as the 45th Anniversary *"Salamat sa Tiwala"* Raffle Promo and the *"Thankful@45"* Christmas Promo, boosted our loan production during the year.

Service capacity improvement are also being pursued in support of market expansion. Assessment of existing facilities, equipment, location/distribution network, and manning requirement was made to establish the optimum capacity required to improve customer experience. Various innovations were made along this line, significant of which are as follows:

‡ Major IT investment was made during the year with the engagement of Questech, in partnership with Consolsys, for an enterprise-wide IT solution that will replace the existing IMCS 2. The new mission critical system - AFPSLAI Voyager, is expected to address transactional lags and other operational inefficiencies down the line.

‡ Reorganization and increased manpower complement of the branch offices to enable them to handle the growing service requirements at the branch level. This was made operational in June 2017.

‡ Mapped out optimal location strategy and improvement of existing facilities and equipment to improve service efficiency.

- Transfer of Urdaneta, Daet, and Dumaguete extension offices were completed and are now operational in their new locations. Also, inauguration of Palawan Branch in its new location outside camp was made this month.

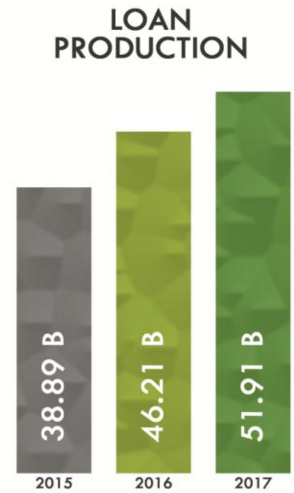
- Establishment of a new extension office in Maasin, Tacloban was recently completed and will be operational soon.

- Relocation of Lucena Branch outside the camp and space improvements for the Head Office and Villamor Extension Office are ongoing; while the construction of a new office for Bonifacio Branch, relocation of Bacolod Extension Office, and renovation of Lipa Extension Office are already in the pipeline and will soon be started.

Member-focused initiatives are aimed at retaining members and building loyalty thru need-based product portfolios and enhanced customer satisfaction across our various channels. Major accomplishments are as follows:

‡ Policy enhancements towards improving our products and services:

- Increased ALMS Benefit from Php 25,000 to Php 50,000 for survivors of regular members who died in the performance of duty or those killed in action (KIA). Families of regular members who died during the Marawi siege were the first beneficiaries of this enhancement.



- Streamlined identification documents (IDs) and other requisites for certain membership transactions.

- Reduced interest rates for Vehicle Loan and Real Estate Loan that made these products competitive, if not the lowest in the market. Additional enhancements for the Real Estate Loan were on the maximum loanable amount, which was increased from Php 5M to Php 6M, and the pricing structure which was revised from amount-based to term-based. Effectivity of the enhanced Vehicle Loan and Real Estate Loan were on January 1 and April 2, 2018.

- Revised the pricing scheme for Back-to-Back (B2B) Loan from one that is based on the annual dividend rate to a fixed rate of 13.5% per annum, effective February 1, 2018. Based on a 16% per annum dividend rate, this essentially reduces the B2B rate by 2.5%.

- Introduction of a new product, the Commutation Loan, exclusive to Philippine Navy members who are due for retirement. The product is packaged as a secured loan, subject to a one-time balloon payment. Effectivity was on February 12, 2018.

‡ New technology-based solutions were deployed during the year to further improve our service delivery:

- Installation of the Kiosk facility, where members can access their membership status as well as account and loan balances. The project, which kicked off last September, was completed this month.

- The "Insta-Credit" facility which was rolled out in September 2017, is an additional cash payout facility in partnership with RCBC. Just like the existing "U-Remit" of UCPB, the facility allows members to claim their loan proceeds and process cash withdrawals thru their bank accounts or as cash payout.

‡ Conducted an AFPSLAI-wide Customer Satisfaction Survey thru Strand-Asia. Overall survey results indicated a strong brand awareness of AFPSLAI among its members, and a positive overall customer satisfaction index of 4.1, with 5 as the highest. As a follow-through, a market research is currently being undertaken, this time, to identify the market's unmet needs and preferences as a basis for product development and service enhancements.

Compliance and risk management initiatives are continually being undertaken not only to improve service efficiency, but to ensure that internal processes and structures are aligned with regulatory and risk-mitigating standards. Along this line, our accomplishments for the period are as follows:

‡ Lifting of Prompt Corrective Action (PCA) status of AFPSLAI as approved by the BSP Monetary Board last February. Essentially, this affirms that AFPSLAI's financial and operating condition do not present a higher-than-normal risk.

‡ Engaged the services of Pricewaterhousecoopers or PWC for the IT Risk Assessment Framework as an integral part of the IT management plan.

‡ Approval/Implementation of various risk management and regulatory compliance policies (e.g. AFPSLAI Identity Theft Prevention Program, Revised Guidelines on Dormant Accounts, Credit Information Policy, etc.)

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Creating social impact through various meaningful undertakings demonstrate our corporate value of *"Malasakit"* to our members, their families, and the nation as a whole. Thru our comprehensive CSR Program, we continue to provide material assistance and consistently find ways to improve the quality of life of our members.

Corporate Giving - comprised of material donations aggregating Php 17.40M given to the following partner institutions, among others:

- Various computers and other IT and office equipment to different AFP/PNP/BFP units;
- Various medical equipment to the BFP and PN Dental Dispensary in Fort Bonifacio;
- One (1) unit each of Toyota Hi-Ace ambulance for the 7th ID, PA and the AFP Medical Center; one (1) unit 14-seater electric vehicle to Philippine Veterans Affairs Office (PVAO); and one (1) multi-cab for the 36th IB, 4th ID, PA;
- 300 bags of gift packs for the Office of the AFP Sergeant Major that were given to soldier-patients in AFP hospitals;
- Donation for the repair/improvement of the Association of Generals and Flag Officers (AGFO) office in Camp Aguinaldo;
- Donation to Armed Forces of the Philippines Educational Benefit System Office (AFPEBSO) support program for the dependents of KIA soldiers; and
- One (1) set of light and audio system for the Regional Training Center 12.

Scholarship Program - Since its launch, the program has taken in a total of 514 scholars (500 baccalaureate and 14 vocational courses), coming from the 21 branch offices nationwide. As of 2017, the Program has produced a total of 226 graduates, where 16 of them graduated in 2017.

Outreach Program - A yearly branch-based outreach program is being conducted, usually in the form of medical missions and provision of services to transacting members.

Entrepreneurship Program - Thru this program, we recognize members engaged in successful entrepreneurial endeavors to inspire other members to engage in equally productive undertakings.

Recently, our advocacy on financial literacy has been integrated to help members build a solid financial foundation. For the year, seminars were held in Iloilo, Cebu, Baguio and Camp Crame.

ALMS Program - A total of Php 54.56M in the form of death assistance was provided to the survivors of deceased AFPSLAI members.

LOOKING FORWARD: Our Strategy

We have clearly defined our vision of becoming the leader in all market segments. Towards this end, we shall align and allocate our resources on the following strategic agenda:

- **Pursue quality and sustainable growth** by adopting financial and operational decisions that are carried out thru prudential observance of regulatory and risk standards. Thus, our appetite to generate more loans shall be tempered by our target for quality loans. Also, we shall continue to work towards a rationalized capital structure that is less dependent on high-cost CC funds. As a starter in 2018, CCA quarterly placement was again lowered from Php 100K to Php 50K effective Q1 2018 for those with CC remittances, to further control inflow of CC funds.

- **Pursue market expansion** on new and untapped market thru aggressive membership recruitment activities specifically targeting new recruits. The conversion of new members to borrowers shall likewise be given priority to improve our Loans Portfolio. We are also pushing for a more relevant market presence by establishing networks in targeted locations with high market concentration.

- `**Drive customer satisfaction** thru member-centric initiatives and appropriate technology support. This means developing products that are responsive to the needs of the members. Improvement of overall operational efficiency shall likewise be prioritized thru service platforms that respond to members' demand for a fast and convenient service. For the year, expect enhanced or new products to be launched as a review of our existing product line is currently in progress. We have also been relentless in finding ways to ease over-the-counter transactions thru technology-based facilities such as the Kiosk, and cash payout facilities like the U-Remit and now the Insta-Credit. Meanwhile, our new core banking solution, the AFPSLAI "Voyager", will go live on January 2, 2019.

- **Create social impact** thru our advocacy of empowering our members towards financial freedom and attainment of their goals thru our various CSR initiatives. We have also taken a shift towards a proactive and targeted CSR Program as we seek out ways to contribute in improving the well-being of our members and our partner institutions.

- **Develop a culture of excellence** where every employee adds value to the Association's pursuit for service excellence. We shall continue to invest in HR programs that will develop competent, values-driven and highly engaged board, management and staff.

We will continue to evolve to bring out the best possible customer experience for our members. We will pursue our strategic agenda without let-up, driven by our desire to deliver high-quality growth and better shareholder value. We will solidify the gains we have made so far and leverage on this so we can be in a better position to accomplish what remains to be done.

At this point, I would like to extend my gratitude to our dear members for your continuing support and patronage; to the Board of Trustees for their guidance and oversight; and to the AFPSLAI management team and employees for rallying behind this vision with utmost commitment and full cooperation.

As your President and CEO, I am humbled by your selfless contribution in bringing about another year of success for AFPSLAI. In return, I commit to deliver better results for the Association.

LTGEN VIRGILIO O DOMINGO AFP (RET)
AFPSLAI President and CEO

CONSUMER PROTECTION

With a generally successful launch of the Consumer Protection Program in 2016, the aim for 2017 was to build on the success of the initial implementation by improving the current complaints management system including its database and reporting mechanism. The continuation of the Financial Literacy Program was also lined-up. In partnership with Strand Asia, a Customer Satisfaction Survey was conducted in 2017 to determine the satisfaction of the members when it comes to products and services, and to improve customer loyalty. Inputs from the survey were also used during the planning sessions of the Association.

YEAR 2017

PROFILE OF COMPLAINANTS

GENDER

MALE
89 (34.50%)

FEMALE
34 (13.18%)

UNIDENTIFIED
135 (52.32%)

MEMBERSHIP STATUS

BRANCH OF SERVICE

CIVILIAN / NUP
1 (0.39%)

BJMP
1 (0.39%)

PAF
2 (0.77%)

PN
3 (1.16%)

BFP
5 (1.94%)

PA
9 (3.49%)

PNP
11 (4.26%)

PENSIONER
38 (14.73%)

UNIDENTIFIED
188 (72.87%)

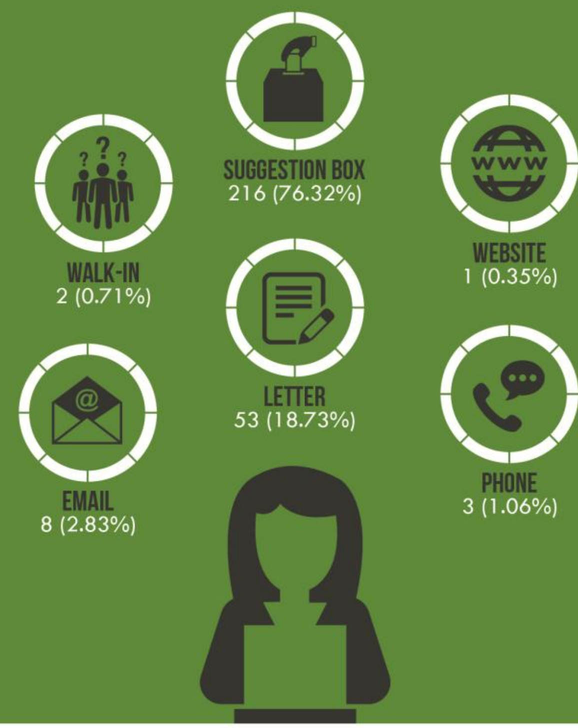
TYPE OF FEEDBACK

235 SIMPLE

48 COMPLEX

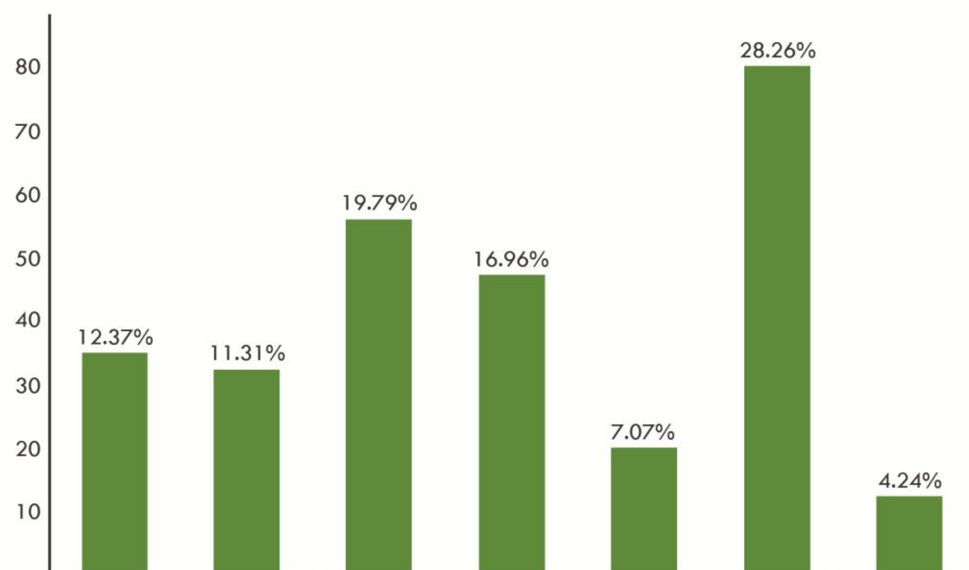
TOTAL OF 283 CONCERNS FROM 258 COMPLAINANTS WERE LOGGED FOR YEAR 2017

ASSISTANCE CHANNEL



DATA ON CONCERNS

NATURE OF CONCERNS



	FACILITIES	FEES & CHARGES	PERSONNEL	PROCESSING TIME	PRODUCT FEATURES	QUEUE	OTHERS
VOLUME	35	32	56	48	20	80	12

YEAR 2016 VS YEAR 2017

	2016	2017
COMPLAINANTS	267	258
COMPLAINTS	322	283

For year 2016, AFPSLAI received a total of 322 comments/ suggestions from 267 individuals, while for 2017, only 283 comments/suggestions were received from 258 individuals. It is worthy to note that there were more complaints received in 2016 even if there were lesser number of months (only from March to December) since the initial implementation of the Consumer Protection Program.

	2016	2017
IDENTIFIED	73	85
ANONYMOUS	194	173
TOTAL	**267**	**258**

Another stark difference between 2016 and 2017 is that more members are now identifying themselves and have now used other channels, like letter sending, to relay their concerns. By sending letters and identifying themselves, members are now confident that their concerns will be properly addressed and that they will be given feedback.

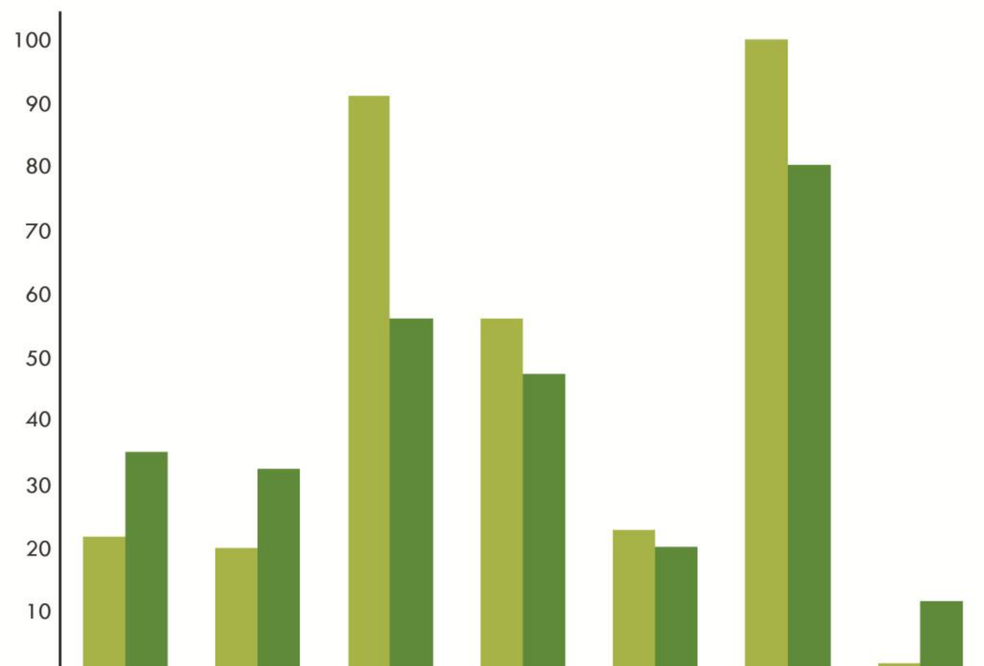
YEAR 2016 VS YEAR 2017

As expected, most of the comments/concerns were received through the suggestion box. Majority of those are from anonymous complainants. On the other hand, no comment was lodged using the website during the year 2016 due to several issues encountered using the system at that time.

On the table below, most noteworthy is the decline in number of complaints with regard to personnel. Aside from improvements made by the Branch Offices, AFPSLAI was advised, during the BSP review, to classify future complaints received regarding personnel to queuing or processing time if the root cause of the complaint is due to slow transaction time.

ASSISTANCE CHANNEL	2016	2017
EMAIL	13	8
LETTER	25	53
WALK-IN	5	2
SUGGESTION BOX	276	216
PHONE	3	3
WEBSITE		1

NATURE OF CONCERNS 2016 VS 2017



	FACILITIES	FEES & CHARGES	PERSONNEL	PROCESSING TIME	PRODUCT FEATURES	QUEUE	OTHERS
2016	22	20	91	56	23	100	2
2017	35	32	40	48	20	80	12

Note: 6 and 16 commendations received in 2016 and 2017, respectively, are not included in the concerns on Personnel.

FINANCIAL EDUCATION

In 2017, AFPSLAI programmed three (3) financial literacy seminars, which were all conducted by Mr Francis J Kong, a well-known speaker and financial expert. Details of the seminars are as follows:

BRANCH	VENUE	DATE	NO. OF ATTENDEES
ILOILO	Smallville21, Iloilo City	August 10, 2017	71
CEBU	Hotel Elizabeth, Cebu City	October 6, 2017	171
BAGUIO	PMA, Baguio City	October 20, 2017	217

Although not part of the program for the year, an additional seminar was held in Camp Crame for the benefit of retiring personnel of PNP Retirement and Benefits Administration Office (PRBS) where 51 attended.

SOCIAL COMMITMENT

The year 2017 marked another milestone in the history of AFPSLAI as it celebrated its 45th Founding Anniversary. AFPSLAI's success would have not been possible without the support and loyalty of its stakeholders. Thus, as a sign of gratitude, AFPSLAI continues to reach out to its members and the communities they belong to and make new opportunities to inspire change.

SCHOLARSHIP AND EDUCATIONAL ASSISTANCE PROGRAM (SEAP)

Finish Strong. These are the words that were passed on to the new batch of scholars and the graduating class of 2017. The SEAP, now on its 15th year of giving assistance to direct dependents of AFPSLAI members who have high academic aptitude but lack financial capabilities, continues its legacy of excellence. For the School Year 2017 – 2018, only one (1) new scholar was accepted to the program. This was the result of the introduction of K12 in the

Philippine Educational System. On the other hand, sixteen (16) scholars graduated in 2017 and are now ready to enter the professional world. For the first time in the history of the program, one scholar, Mr Bryan T Ramos graduated Summa Cum Laude with a degree in BS Psychology from Riverside College in Bacolod City.

AFPSLAI has 125 slots for the Scholarship and Educational Assistance Program, 115 of which is open for baccalaureate courses while the remaining 10 are for vocational courses.

SEARCH FOR OUTSTANDING MEMBER-ENTREPRENEURS (SOME)

PSUPT MELCHOR G PROVIDO (RET)

It takes more than just a leap of faith to succeed. You make it happen. You make it work. In its 16 years of recognizing AFPSLAI members who made good use of their AFPSLAI loan to start or expand their business enterprises, the Search for Outstanding Member-Entrepreneurs has honoured more than 60 entrepreneurs in various fields of business.

SPO4 TEODULO B PROCIANOS

This year's winner, PSupt Melchor G Provido (Ret) is a proud owner of a prawn farming business in Sarangani. From just one (1) farm area when he started, he now has four (4). His products supply the local markets of General Santos City and nearby provinces, as well as the National Capital Region. The business has created a number of jobs for the people in the community thereby making them more self-reliant. His business, likewise, allowed him to put up a cooperative for his employees to help them in their financial needs. Every year, the income generated by the cooperative is divided among the members.

SPO4 ALEXANDER N TABLAZON

Unlike other businessmen, PSupt Provido is generous of his acquired knowledge and skills in prawn farming. Through the Prawn Farming Association, he mentors other prawn farmers with the hope that they, too, will be successful in the business.

Three (3) other finalists are also leaders and givers in their community. First Runner-up SPO4 Teodulo B Procianos from Lanao del Norte, owns several businesses which include a hotel, space rental, restaurant and catering service. Second Runner-up SPO4 Alexander N Tablazon from Cotabato, is a proud owner of Xander Bakeshop and Fastfood. Third Runner-up SPO2 Kit D Mayol of Zamboanga del Sur owns a rice and corn business.

SPO2 KIT D MAYOL

OUTREACH PROGRAM

Operation TULI

Aware of the health benefit, as well as the high cost, of having male children undergo circumcision, the 2017 Outreach Committee had Operation TULI as its first project for the year. This was conducted in the months of April and May to coincide with the summer break of school children. Considering that the activity involves surgery, proper attention was given in the selection of the medical team to handle the activity as well as in the purchase of the needed materials. Beneficiaries of this activity were children / dependents of AFPSLAI members and children living within the vicinity of the camps.

Operation TULI was conducted in four (4) AFPSLAI Offices in partnership with AFP and PNP Health Services, namely: Tanay EO, Aguinaldo Branch with the 2ID Army Station Hospital, Camp Capinpin, Tanay, Rizal; Zamboanga Branch with Camp Navarro General Hospital, Zamboanga City; Bacolod EO, Iloilo Branch with the 303rd IB, Camp Gerona, Murcia, Negros Occidental; and Camp Bagong Diwa EO, Bonifacio Branch with the NCRPO Regional Health Services Unit, Camp Bagong Diwa, Taguig City. A total of 449 male children availed of the free circumcision service.

It's a Head and Shoulder Double Treat

AFPSLAI understands the stress that its members undergo in their daily function as head of the family or in their daily duties in the service of the country, thus, the 2017 Outreach Committee came up with the It's a Head and Shoulder Double Treat in response to the members' need for relaxation and bringing out a fresh outlook. This free haircut and body massage was offered in all 21 Branch Offices for transacting members complete with a perfect spa ambiance. Participants in the activity were also offered free tea or coffee and biscuits while enjoying the spa experience. Some Branch Offices even took the activity a notch higher by offering the members not only free haircut and massage but also free pedicure and manicure; kidney and prostate check-up; and make-up one on one. Participants also got to bring home a token of either an organic soap or hand towel.

Medical Mission

Since its inception in 2009, the Medical Mission has become an annual activity of the Outreach Program. The main objective of this activity is to offer free medical services and medicines for geriatric-related ailments. Main beneficiaries of the activity are retirees, member-pensioners and their dependents. AFPSLAI members who are still in active service also participate in the activity.

From October to December 2017, the members of the Outreach Committee travelled across Branch Offices to manage the conduct of the Medical Mission.

For this year, the services offered were blood pressure check-up, flu vaccination, consultation and free medicines and vitamins. In other Branch Offices, they also offered other services such as prostate check-up, bone screening and blood analysis. For the Aguinaldo and Crame Branch Offices, as part of the 45th Anniversary Celebration of AFPSLAI, the Medical Mission was taken a mark higher by providing members an A.P.E. (Annual Physical Examination) which services include urinalysis, complete blood count and analysis, x-ray, ECG, dental check-up and consultation.

CORPORATE GIVING

AFPSLAI's success was made possible through the unwavering support of the men and women in uniform, their dependents and the community they serve. Through its Donations Program, AFPSLAI finds ways to give back in recognition of their trust and loyalty to the Association. From the Marawi siege to its various initiatives on education, health and wellness, community development, as well as the improvement of the different units, AFPSLAI was there to give support. These donations benefit not only the AFPSLAI members but also a big part of the community.

Transcending expectations has been the key motivational factor for AFPSLAI in 2017 which is clearly demonstrated by the various socio-civic activities implemented throughout the year and this will continue in many more years to come.

CORPORATE GOVERNANCE

Sound corporate governance is critical in gaining and retaining the trust of the stakeholders. Guided by the principles of fairness, accountability and transparency, AFPSLAI always seeks a high degree of ethical conduct, integrity and value-based leadership in the conduct of all its affairs.

The trustees, management and staff strive to continually protect the interests of all the stakeholders, seek ideas for improvement and ensure the long-term sustainability of AFPSLAI. Necessary measures are designed to align the goals of the Association with that of the stakeholders.

BOARD RESPONSIBILITY

The Board sets up the tone of good governance. It is the highest decision-making body of the Association. It exercises its duties with care, skill and diligence. It sets strategic goals and seeks accountability for their fulfillment. It also directs and exercises appropriate control to ensure that AFPSLAI is managed to meet the aspirations and expectations of its stakeholders.

BOARD COMPOSITION

The AFPSLAI Board of Trustees is composed of fifteen (15) members, who are highly qualified professionals with a broad range of expertise. The trustees are elected by the members during the Annual Membership Meeting. Each member serves a one (1) year term until a new set of trustees has been duly elected.

The Chairman leads the Board and is responsible for fostering and promoting the integrity of the Board while nurturing a culture where the trustees work harmoniously for the long-term benefit of AFPSLAI and all its stakeholders. In the absence of the Chairman, the Vice Chairman acts in his stead and has such powers and duties as the Board prescribes and delgates to him by the Chairman.

BOARD MEETINGS AND ATTENDANCE

The Board holds regular monthly meetings or as often as business requires. At such meetings, the trustees and senior management share points of view and leadership thoughts on various matters related to the operations of the Association. For the year 2017, a total of 20 meetings were held (12 regular meetings and 8 special meetings).

TRUSTEES	MEETINGS ATTENDED	MEETINGS ELIGIBLE TO ATTEND
GEN REY LEONARDO B GUERRERO AFP[1]	2	4
MGEN ROMEO D LUSTESTICA AFP (RET)	20	20
LTGEN VIRGILIO O DOMINGO AFP (RET)	20	20
LTGEN CHRISTIE B DATU AFP (RET)	20	20
VADM LEONARDO C CALDERON JR AFP (RET)	18	20
MR HECTOR M ATIENZA[2]	5	5
RADM ERNESTO C ENRIQUEZ AFP (RET)[3]	1	1
PDDG ARCHIE FRANCISCO F GAMBOA	17	20
PCSUPT EDDIE B BENIGAY (RET)	19	20
PSSUPT HERIBERTO O OLITOQUIT (RET)[†]	19	20
COL RUFINO G RAMORAN JR (MNSA) PA[4]	2	3
COL ROY M GALIDO (GSC) PA[5]	0	0
CAPT BRENDO J CASACLANG (GSC) PN[6]	11	11
LTC ALVIN M HATE (MNSA) PAF[7]	0	0
FCMS LITO A TOMPAYOGAN (INF) PA[8]	3	3

1: Elected on October 27, 2017
2: Elected on October 19, 2017
3: Elected on November 28, 2017
4 & 8: Elected on November 10, 2017
5: Elected on January 19, 2018
6: Elected on June 24, 2017
7: Elected on February 1, 2018

BOARD TRAININGS AND SEMINARS

Trainings and seminars are given to the members of the Board, as well as key officers, to keep them updated on matters concerning the financial industry and related regulations which are relevant to the business and operations of the Association.

DATE	COURSE/TITLE	SPONSOR/TRAINER	ATTENDEES
February 2, 2017	Exclusive Corporate Governance Orientation Program	Institute of Corporate Directors	Gen Eduardo M Año AFP (former Chairman of the Board); selected trustees
February 23, 2017	New DOLE Labor Policies	ARIVA Academy Philippines, Inc	LtGen Christie B Datu AFP (Ret)
March 31, 2017	Briefing on Labor-Management Relations	The Law Firm of Chan Robles and Associates / Atty Joselito Guianan Chan	selected trustees; President & CEO Domingo
August 23, 2017	Corporate Governance Orientation Program	Institute of Corporate Directors	Capt Brendo J Casaclang (GSC) PN
September 12, 2017	15th MAP International CEO Conference 2017	Management Association of the Philippines	President & CEO Domingo
December 20, 2017	Data Privacy Awareness Program	PWC / Isla Lipana & Co.	selected trustees; President & CEO Domingo; Corporate Secretary Padilla

BOARD COMMITTEES

The Board delegates authority and powers to Board Committees to oversee specific tasks based on clearly defined terms of reference. These committees enable the Board to carry out its stewardship and fiduciary responsibilities.

GOVERNANCE COMMITTEE

CHAIRMAN:
MGEN ROMEO D LUSTESTICA AFP (RET)
VICE CHAIRMAN:
LTGEN CHRISTIE B DATU AFP (RET)
MEMBERS:
LTGEN VIRGILIO O DOMINGO AFP (RET)
VADM LEONARDO C CALDERON JR AFP (RET)
MR HECTOR M ATIENZA
PCSUPT EDDIE B BENIGAY (RET)
PDDG ARCHIE FRANCISCO F GAMBOA
COL RUFINO G RAMORAN JR (MNSA) PA
TOTAL NUMBER OF MEETINGS: 18

The Governance Committee ensures that the Board governance system works effectively and that the corporate governance guidelines are adhered to and strictly observed by the BOT and Corporate Officers.

One of the significant accomplishments of the Governance Committee was the approval of the Revised Purchasing Manual. Said Manual provides a general policy and procedural guidelines on the procurement of goods and services that would ensure transparency, competitiveness, efficiency, and cost effectiveness in the Association's procurement program.

As part of the Association's corporate social responsibility (CSR), another significant accomplishment of the Governance Committee was the approval of the Outreach Program. Said program includes a medical mission and health-related activities done in our branch offices that benefited not only our members but also their dependents. Another CSR program that was approved by the Governance Committee was the Financial Literacy Program. This is also to comply with BSP Circular No. 857 Series of 2014, subject: BSP Regulations on Financial Consumer Protection where the Association is required to conduct financial literacy seminars to its members.

The Governance Committee also reviewed the Association's financial and operational highlights on a monthly basis. It also discussed the Corporate Program Performance Review and Assessment for the Year 2016. It also regularly monitored the performance of its subsidiaries.

MAJOR ACCOMPLISHMENTS
(endorsed for Board approval)

- Granting of Expected Dividend Advance and Distribution of Undivided Profits for the 4th quarter 2016, and 1st to 3rd quarters 2017;
- Annual Declaration of Dividend for the Year 2016 and Allocation for Other Expenditures (allocation of Php 250M loan rebates);
- Disposition of Remaining Donations Fund Balance for 2016;
- Major donations to various units within AFPSLAI's well-defined group;
- Operation/relocation/transfer of extension offices;
- Anniversary Raffle Promo *(Salamat sa Tiwala Raffle Promo)*;
- Revised Purchasing Manual;
- Hiring of EVP-GM, and SVPs for Treasury and Operations;
- Shortening of Corporate Life of Centennial Financing Corporation (CFC);
- CFC's General Plan;
- Outreach Program for 2017;
- AFPSLAI's Financial Literacy Program;
- Selection of Vendor of AFPSLAI Voyager Project;
- AFPSLAI Nominees and Proxy to CFC's and Aguinaldo Theater Enterprise Incorporated's (ATEI's) Stockholders' Meetings;
- Revised Board Committee Charters; and
- AFPSLAI's Business Plan for 2018

The Governance Committee also discussed relevant new BSP Circulars such as the BSP Circular on the Adoption of Know-Your-Member Guidelines for Non-Stock Savings and Loan Associations (NSSLA), and the BSP Circular on Strengthening Corporate Governance. The Committee also discussed provisions of the General Appropriations Act of 2017 particulary on the Authorized Deductions.

As part of the nominating function of the Governance Committee, it also screened applicants for membership in the Board based on the minimum set qualifications. It also screened candidates for EVP-GM and SVP positions, and endorsed its recommendations to the Board. It also endorsed the designation of Chairmen and Members in Standing Board Committees.

Likewise, the Governance Committee, as part of its performance evaluation function, assessed the performance of the individual Corporate Officers, Trustees, Board Committees and the Board as a whole.

RISK OVERSIGHT COMMITTEE

CHAIRMAN:
VADM LEONARDO C CALDERON JR AFP (RET)
VICE CHAIRMAN:
RADM ERNESTO C ENRIQUEZ AFP (RET)
MEMBERS:
MGEN ROMEO D LUSTESTICA AFP (RET)
LTGEN VIRGILIO O DOMINGO AFP (RET)
LTGEN CHRISTIE B DATU AFP (RET)
PCSUPT EDDIE B BENIGAY (RET)
PSSUPT HERIBERTO O OLITOQUIT (RET)†
TOTAL NUMBER OF MEETINGS: 12

The Risk Oversight Committee reviews, approves and oversees the Association's risk management strategies, activities, and exposures.

One of the major accomplishments of the Risk Oversight Committee was the approval of the Social Media Risk Policy in compliance with BSP Circular No. 949 Series of 2017, which provides the adoption of guidelines on social media risk management for BSP-supervised financial institutions.

As part of the review of liquidity and capital structure, another major accomplishment of the Risk Oversight Committee was the approval of the reduction of capital contribution remittance limit effective January 2018 to manage the liquidity risk of the Association. Relatedly, the Committee also reviewed the Performance of Investment on a monthly basis, Liquidity Gap Report on a quarterly basis, and the Stress Testing Report on an annual basis.

As a continuing commitment to provide quality and fast service to our members, the digitized ID was rolled-out in June 2017. With the plan of interfacing it with a facility, the Risk Oversight Committee approved the implementation of the Kiosk Facility Project that will provide members easy access to their deposit accounts and loan balances. Relatedly, for a faster receipt of loan proceeds by the borrowers and cash withdrawals processed at extension offices, the Committee approved RCBC's Instacredit Facility that provides available options such as cash pick-up at any RCBC branch or telemoney partners i.e. accredited pawnshops, LBC and Bayad Center.

MAJOR ACCOMPLISHMENTS
(endorsed for Board approval)

- Designation of authorized signatories for Head Office and Branch Offices;
- RCBC's Instacredit Facility for AFPSLAI's Cash Pay-out Requirement;
- Renewal of Government Securities for Withdrawable Share Reserve;
- Selection of Service Providers (health care; security services; corporate uniforms);
- Selection of Credit Redemption Insurance (CRI) Provider;
- Social Media Risk Policy;
- Review of Liquidity and Capital Structure (reduction of capital contribution remittance limit);
- Shortening of Corporate Life of Centennial Financing Corporation (CFC);
- Amendments to the Policies on Investment thru Investment Management Account (IMA) and Investment in Corporate Bonds/Commercial Papers; and
- Kiosk Facility Project

The Risk Oversight Committee also deliberated on the monthly reports of the Risk Officer on the updates on the Risk Management Plan, Quarterly Updates on Medium and High Risks, Business Continuity Plan, and Credit Risk Scorecard. The Committee closely monitored the Association's risk exposure and its likelihood and impact, key risk indicators and current mitigating strategies.

The Risk Oversight Committee also monitored the compliance to BSP Report of Examination (ROE) covering the area of risk. It also evaluated the performance of the Risk Officer on a quarterly basis.

AUDIT & COMPLIANCE COMMITTEE

CHAIRMAN:
PCSUPT EDDIE B BENIGAY (RET)
VICE CHAIRMAN:
VADM LEONARDO C CALDERON JR AFP (RET)
MEMBERS:
MGEN ROMEO D LUSTESTICA AFP (RET)
LTGEN CHRISTIE B DATU AFP (RET)
RADM ERNESTO C ENRIQUEZ AFP (RET)
COL RUFINO G RAMORAN JR (MNSA) PA
FCMS LITO A TOMPAYOGAN (INF) PA
TOTAL NUMBER OF MEETINGS: 17

The Audit & Compliance Committee oversees the financial reporting, internal control system, audit process, compliance with laws and regulations, and risk management.

One of the significant accomplishments of the Audit and Compliance Committee was the approval of AFPSLAI's Identity Theft Program. Said Program is designed not just to comply with the requirements of the AMLC and the BSP but to assure our members that AFPSLAI is actively involved in the prevention of identity theft.

To comply also with the requirements of the BSP, another significant accomplishment of the Audit and Compliance Committee was the approval of the Know-Your-Employee (KYE) Program to protect the Association against embezzlements due to employee fraud or theft and promote a culture of compliance.

As part of the financial reporting function of the Audit and Compliance Committee, it reviewed the monthly reports of Head, General Accounting Office on the Results of Operations, Statement of Condition and Statement of Cash Flow. The Committee also regularly monitored the internal capital adequacy reserve of the Association. It made sure that financial recording adheres to the Philippine Financial Reporting Standards (PFRS) and BSP requirements. Relatedly, it approved the Selection Process and Evaluation Criteria for External Auditors which provides guidelines throughout the process of selecting and evaluating external auditors for the Association.

To ensure compliance to laws and regulations, the Audit and Compliance Committee also discussed the monthly reports of the Corporate Compliance Officer, which includes, among others, the report on covered and suspicious transactions; crimes and losses; result of compliance testing/validation; BSP limit on CAR;

MAJOR ACCOMPLISHMENTS
(endorsed for Board approval)

- Audited Financial Statements of AFPSLAI for the Year-ended 31 December 2016 by Isla Lipana;
- AFPSLAI's Identity Theft Program;
- AFPSLAI's Know-Your-Employee (KYE) Program;
- Selection Process and Evaluation Criteria for External Auditors;
- Revised Internal Audit Manual;
- CCA Classification and Capital Adequacy Ratio;
- Selection of Service Provider for the External Quality Assessment of Internal Audit Activities;
- Consultancy Project for PFRS9 Implementation; and
- Revised AFPSLAI AML Committee Charter

R.A. 9510 CISA updates; and other proposed BSP regulations. The Committee also discussed the BSP Report of Examination, status of cases involving crimes and losses perpetuated by both the employees and members, and recommended procedures/measures to prevent occurrence of the same.

Likewise, to ensure that internal control system is in place, the Audit and Compliance Committee deliberated on the monthly audit reports of Head, Internal Audit Division (IAD) covering Head Office, Branch Offices and Information Systems audits. It also monitored and followed up compliance to previous audit findings and recommendations, and reviewed the evaluation of actions taken by the auditees. The Committee also approved the Revised Internal Audit Manual to enhance IAD's processes.

The Audit and Compliance Committee also evaluated the performance of the Compliance Officer and Head, IAD on a quarterly basis.

HUMAN RESOURCE & COMPENSATION COMMITTEE |

CHAIRMAN:
LTGEN CHRISTIE B DATU AFP (RET)

VICE CHAIRMAN:
PSSUPT HERIBERTO O OLITOQUIT (RET)'

MEMBERS:
MGEN ROMEO D LUSTESTICA AFP (RET)
LTGEN VIRGILIO O DOMINGO AFP (RET)
CAPT BRENDO J CASACLANG (GSC) PN
LTC ALVIN M HATE (MNSA) PAF
FCMS LITO A TOMPAYOGAN (INF) PA

TOTAL NUMBER OF MEETINGS: 13

The Human Resource & Compensation Committee oversees the formulation of strategic Human Resource policies including compensation-related policies for both employees and the Board of Trustees.

One of the major accomplishments of the HR and Compensation Committee was the approval of the expansion of branch operations to boost manpower complement with the primary intent of promoting service efficiency.

As part of AFPSLAI's commitment to its rank-and-file employees, another significant accomplishment of the HR and Compensation Committee was the approval of the CBA covering the period June 1, 2017 to May 31, 2019. Said CBA was a renegotiation of the 2014 CBA, with the end in view of promoting sound and stable industrial peace and to advance the general welfare, health, safety and the best interest of the employees of the Association.

The HR and Compensation Committee also approved the Amended RSBP to match the standard stipulation requirements of the Bureau of Internal Revenue (BIR).

As part of the HR and Compensation Committee's oversight function, it also discussed the monthly Retirement Fund report insofar as fund balance status, income and expense highlights, employee loan portfolio, and fund utilization are concerned.

To oversee Human Resource policies, the Committee reviewed HR support systems such as the Performance Management System and the IRR on the Administration of Performance-based Salary Increase. The Committee also discussed the results of the Organizational Climate Survey for 2016.

MAJOR ACCOMPLISHMENTS
(endorsed for Board approval)

- Actuarial Valuation Report 2016;
- Performance Assessment and Targets for the Retirement Fund for 2017;
- Expansion of Branch Operations;
- Amended Retirement and Separation Benefits Plan (RSBP) for submission to BIR;
- Collective Bargaining Agreement (CBA) covering the Period June 1, 2017 to May 31, 2019;
- Updated Policy on Performance Management System (PMS);
- Increase in the remunerations of the Board of Trustees;
- Salary increase for supervisors, managers, and executives;
- Policy Guide for Granting of Performance Bonuses to BOTs and Employees; and
- Implementing Rules and Regulations (IRR) on the Administration of Performance-based Salary Increase

CREDIT & COLLECTION COMMITTEE

CHAIRMAN:
PDDG ARCHIE FRANCISCO F GAMBOA
VICE CHAIRMAN:
MR HECTOR M ATIENZA
MEMBERS:
LTGEN VIRGILIO O DOMINGO AFP (RET)
COL RUFINO G RAMORAN JR (MNSA) PA
COL ROY M GALIDO (GSC) PA
CAPT BRENDO J CASACLANG (GSC) PN
LTC ALVIN M HATE (MNSA) PAF
TOTAL NUMBER OF MEETINGS: 22

The Credit & Collection Committee ascertains that the credit and collection support system works efficiently, and attends to related activities of Real and Other Properties Acquired (ROPA) management for transactions beyond the authority level given to management.

MAJOR ACCOMPLISHMENTS
(endorsed for Board approval)

- Loan applications of Directors, Officers, Stockholders and their Related Interests (DOSRI);
- Loan applications of members;
- Accreditation of Third Party Collecting Agents;
- Foreclosure of Collaterals of Past Due Business Loans;
- Re-pricing of Vehicle Loan;
- Re-pricing of Real and Other Properties Acquired (ROPA);
- Sale of ROPA; and
- Credit Information Policy

One of the Association's strategic objectives is to aggressively grow the business not only from the existing but also from the untapped market. Along this line, one of the major accomplishments of the Credit and Collection Committee was the approval of the revised re-pricing structure on vehicle loans on a promotional basis (January 1 to June 30, 2018) to make it competitive given the strong consumer demand.

Another significant accomplishment of the Credit and Collection Committee was the approval of the Credit Information Policy. Said policy details the duties and responsibilities of the Association in compliance with the Republic Act No. 9510, otherwise known as the Credit Information System Act (CISA). The intention of the law is to have a comprehensive, centralized, and reliable credit information system aimed to, among others, reduce the overall credit risk thereby contributing to a healthier and more stable financial system.

The Credit and Collection Committee recognized the remarkable improvement in the collection efficiency with the implementation of the PNP Salary Deduction Loan Information System (SDLIS) and Pension Deduction Loan Information System (PDLIS).

The Credit and Collection Committee also monitored the monthly loan production, billing and collection efficiency, status of past due loan accounts and the reasons behind the delinquency. The Committee also discussed the quarterly status of ROPA.

MEMBERSHIP & AMENDMENT COMMITTEE

CHAIRMAN:
COL RUFINO G RAMORAN JR (MNSA) PA
VICE CHAIRMAN:
PCSUPT EDDIE B BENIGAY (RET)
MEMBERS:
PSSUPT HERIBERTO O OLITOQUIT (RET)†
COL ROY M GALIDO (GSC) PA
CAPT BRENDO J CASACLANG (GSC) PN
LTC ALVIN M HATE (MNSA) PA
FCMS LITO A TOMPAYOGAN (INF) PA
TOTAL NUMBER OF MEETINGS: 12

The Memberhsip & Amendment Committee oversees operational aspect in relation with membership management. It also reviews and deliberates on proposed amendments/revisions to the Articles of Incorporation and By-laws.

To ensure the proper implementation of the amended provisions of the AFPSLAI By-laws under Article XI on Termination of Membership as approved by the BSP and the SEC in October 2016, one of the major accomplishments of the Membership and Amendment Committee was the approval of the Revised Guidelines re: Amended By-laws on Membership Termination. Said policy prescribes the guidelines and procedures in the proper handling and disposition of accounts of the members who will be terminated.

As part of the Association's membership cleansing efforts, another significant accomplishment of the Membership and Amendment Committee was the termination of members from certain pay jurisdictions that are outside the well-defined group. This move was also to address recurring BSP findings that AFPSLAI caters to members who belong in pay jurisdictions that are outside the well-defined group.

The Membership and Amendment Committee deliberated on the monthly Membership Report. It also regularly discussed the updates on the cleansing of membership database, compliance to Know-Your-Customer (KYC) and initiatives on membership perspective.

The Membership and Amendment Committee also discussed changes in the setting and distribution of membership recruitment targets.

MAJOR ACCOMPLISHMENTS
(endorsed for Board approval)

- Application for new membership/ re-admission;
- Application for termination of membership;
- Expulsion of membership;
- Revised Guidelines re: Implementation of the Amended By-laws on Membership Termination;
- Amendments to the By-laws (new provision in Article XI – Termination of Membership); and
- Termination of Membership Outside the Well-defined Group

INFORMATION TECHNOLOGY STEERING COMMITTEE

CHAIRMAN:

MR HECTOR M ATIENZA

VICE CHAIRMAN:

COL ROY M GALIDO (GSC) PA

MEMBERS:

MGEN ROMEO D LUSTESTICA AFP (RET)

LTGEN VIRGILIO O DOMINGO AFP (RET)

RADM ERNESTO C ENRIQUEZ AFP (RET)

TOTAL NUMBER OF MEETINGS: 12

The Information Technology Steering Committee (ITSC) provides governance to ensure the alignment of IT Strategic Plan with the Association's Business Strategy, optimization of resource management, IT value delivery, performance measurement and the effective and efficient use of IT to achieve business objectives and effective IT risk management implementation.

MAJOR ACCOMPLISHMENTS
(endorsed for Board approval)

- Organizational Review and Competency Assessment of Information Systems Division (ISD);
- IT Risk Management Framework (ITRMF) and IT Risk Assessment Framework (ITRAF) by PwC; and
- AFPSLAI Voyager Tripartite Memorandum of Agreement (MOA) among AFPSLAI, Questech and Consolsys

Pursuant to the approved IT Strategic Plan (ITSP) of the Association, the Information Systems Division (ISD) plays a strategic role in enabling the accomplishment of the organizational goals. ISD is both an operational and strategic solutions provider that should be capable of building on cost efficient technology advancements to improve business operations. Along this line, to meet the desired role of ISD in the organization, one of the significant accomplishments of the ITSC was the approval of ISD's revised organizational structure.

Another significant accomplishment of the ITSC was the approval of the ITRMS which aims to define the overall context and approach for managing AFPSLAI's IT risk, and the approval of the ITRAF which aims to define the overall context and approach for identifying, measuring and evaluating foreseeable IT risks. These two frameworks are crucial and timely due to increasing threats to information security in the financial sector, not only locally, but also abroad. These frameworks will also help enable the Association to comply with the Data Privacy Act and BSP regulations set forth in Section 4196S (Information Technology Risk Management) of the BSP Manual of Regulations for Non-Bank Financial Institutions.

The ITSC has also reviewed and discussed the Tripartite Memorandum of Agreement (MOA) among AFPSLAI, Questech and Consolsys for the AFPSLAI Voyager, the system that would replace the current enterprise system to improve operational efficiency and delivery of services to members.

The ITSC also monitored the monthly updates on the ITSP Roadmap, IT projects, AFPSLAI Voyager Project, and BSP findings on IT. It also discussed updates on IT risk on a quarterly basis.

BOARD OF TRUSTEES Y2017-2018

GEN REY LEONARDO B GUERRERO AFP
Chairman of the Board of Trustees

MGEN ROMEO D LUSTESTICA AFP (RET)
Vice Chairman of the Board of Trustees

LTGEN VIRGILIO O DOMINGO AFP (RET)
Trustee and President & CEO

LTGEN CHRISTIE B DATU AFP (RET)

Trustee

VADM LEONARDO C CALDERON JR AFP (RET)

Trustee

MR HECTOR M ATIENZA

Trustee

RADM ERNESTO C ENRIQUEZ AFP (RET)

Trustee

PDDG ARCHIE FRANCISCO F GAMBOA

Trustee

PCSUPT EDDIE B BENIGAY (RET)

Trustee

PSSUPT HERIBERTO O OLITOQUIT (RET)†

Trustee

COL RUFINO G RAMORAN JR (MNSA) PA

Trustee

COL ROY M GALIDO (GSC) PA
Trustee

CAPT BRENDO J CASACLANG (GSC) PN
Trustee

LTC ALVIN M HATE (MNSA) PAF
Trustee

FCMS LITO A TOMPAYOGAN (INF) PA
Trustee

CORPORATE AND EXECUTIVE OFFICERS

GEN REY LEONARDO B GUERRERO AFP
Chairman

MGEN ROMEO D LUSTESTICA AFP (RET)
Vice Chairman

LTGEN VIRGILIO O DOMINGO AFP (RET)
President and CEO

MGEN EMERALDO C MAGNAYE AFP (RET)
EVP-GM

ATTY SAMUEL B PADILLA
Corporate Secretary

PCSUPT ROBERTO L ALIGGAYU (RET)
Treasurer / SVP, Treasury Department

MS ROSARIO D SANTOS
Comptroller / SVP, Comptrollership Department

BGEN LUIS C VINOYA JR AFP (RET)
SVP, Administration Department

MS MARILYN G GAHITE
SVP, Operations Department

MANAGEMENT TEAM

MS LIAH MARIE A DALISAY
Head, Office of the Board Secretariat

MR JONATHAN B FRANCISCO
Head, Internal Audit Division

MR EDMUNDO S BUCO
Head, Head Office Audit Branch, Internal Audit Division

MS LOURDES B OCAMPO
Head, Branch Office Audit Branch, Internal Audit Division

MR VIRGILIO R PRION
Corporate Compliance Officer

MS HAZEL IVY R MANESE
Risk Officer

MS MARIE ANTOINETTE D DELA CRUZ
Head, Corporate Affairs Division

MS PAOLA FLORENCE T BACUNGAN
Head, Corporate Planning Division

MS MA RIZELLE J PALAD
Head, Information Systems Division

MS LANI N BRUNIO
Head, Systems Development Branch, Information Systems Division

MR MYRON C ARCENA
Head, Hardware & Network Management Branch, Information Systems Division

ATTY SADIRI R DALIVA
Head, Legal Services Division

ATTY RICARDO C MONTESA JR
Litigation Lawyer, Legal Services Division

ATTY RONALDO F FLORES
Documentation Lawyer, Legal Services Division

MS GIRLIE E DARIO
Head, Cash & Investment Management Division

MS ALMA P BRINGAS
Head, Cash Operations Branch, Cash & Investment Management Division

MS MA JUDEL G PLAZA
Head, Billing & Collection Division

PCSUPT ROBERTO L ALIGGAYU (RET)
Officer-in-Charge, Remedial Asset Management Office

MR ANTHONY D ROSETE
Head, General Accounting Office

MS LUELLA G LEUTERIO
Head, Financial Statement Branch, General Accounting Office

MS EVELYN C VICTORIA
Head, Loans Accounting Office

MS YOLANDA M BULANADI
Head, Capital, Savings & Membership Accounting Office

MS ANTONETTE BERNADETTE R COLOMA
Acting Head, Human Resource Management Division

MS SARA P CAMBA
Head, Supply & Property Management Office

MR JOHN DAVE E DATOC
Head, General Services Office

LTCOL ALLAN V SOLLANO PA (RET)
Head, Security & Investigation Office

MS MA EVELYN A CORPUZ
Area Operations Head, NCR/Luzon

MR JOSEPH T MACARILAY
Head, Aguinaldo Branch

MS MA KATHLEEN M VELASCO
Assistant Branch Head, Aguinaldo Branch

MR ARNEL V QUERUBIN
Head, Crame Branch

MS MERLITA O CASTRO
Assistant Branch Head, Crame Branch

MR JESUS B VISAYA
Head, Bonifacio Branch

MS LAURIE ANNE L DE JESUS
Head, Sangley Branch

MS ANGELIE A BRUEL
Head, Clark Branch

MR NELSON DG ENRIQUE
Head, Baguio Branch

MS JOYCE R VALIENTE
Head, Isabela Branch

MS CAROLYN P DE VILLA
Head, Lucena Branch

MS MARIA L MARGALLO
Head, Legazpi Branch

MS MARY SHENDYLEEN A ABARCA
Head, Palawan Branch

MS ROFEL O VIVAR
Area Operations Head, VisMin

MR GERRY G TORIO
Head, Cebu Branch

MR JOBERT M SESE
Head, Iloilo Branch

MS PRECILA M FLANDEZ
Head, Tacloban Branch

MR RAFAEL R CASTRO
Head, Catbalogan Branch

MR ROLANDO LITO M MALANA
Head, Zamboanga Branch

MS ANABELLE A MARCABAN
Head, Pagadian Branch

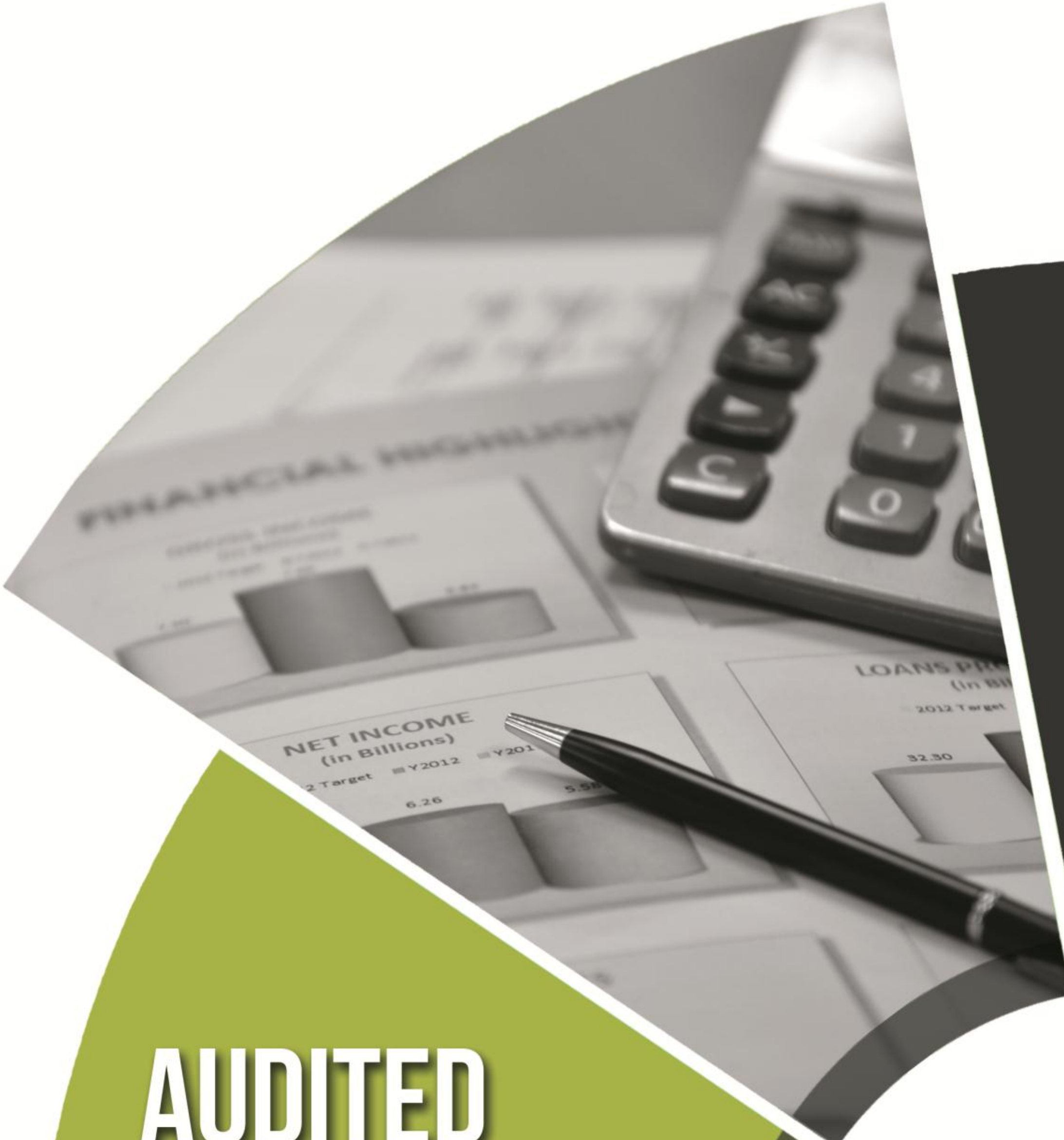
MS SARAH L ENRIQUEZ
Acting Head, Cagayan de Oro Branch

MR RENE C APOS
Head, Davao Branch

MS DOLORES T MARCO
Head, General Santos Branch

MS WILMA T ODO
Acting Head, Cotabato Branch

MS MA FARAH B SOLLANO
Head, Butuan Branch



AUDITED FINANCIAL STATEMENTS

As at and
for the years
ended
December 31, 2017
and 2016

by Isla Lipana & Co.

Statement of Management's Responsibility for Annual Income Tax Return

The management of the **Armed Forces and Police Savings & Loan Association, Inc.** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended 31 December 2017. 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 representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended 31 December 2017 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Company, 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, and 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 and 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; and,

(c) the Association has filed all applicable tax returns, reports and statements required to be filed under Philippines 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.

MGEN ROMEO D LUSTESTICA AFP (RET)	**LTGEN VIRGILIO O DOMINGO AFP (RET)**	**MS ROSARIO D SANTOS**
Vice Chairman	President and CEO	Comptroller

23 APR 2018

SUBSCRIBED AND SWORN to before me this ___ day of _____ 2018 at Quezon City, affiants exhibiting to me their Tax Identification No. (TIN):

Names	TIN
MGEN ROMEO D LUSTESTICA AFP (RET)	134-822-298
LTGEN VIRGILIO O DOMNGO AFP (RET)	127-241-949
MS ROSARIO D SANTOS	

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 30 2018 TSIS
RECEIVED
MELINA PRISCA S. RANJO

ATTY. BRANDO D. TUAZON
Notary Public
Roll No. 59288
Until December 31, 2020
PRT No. 5511520
IBP No. 018442/Lifetime/Makati
MCLE Exempt
AFPSLAI Camp Aguinaldo, Quezon City

Doc No. 115
Page No 23
Book No II
Series of 2018

Independent Auditor's Report

To the Board of Trustees and Members of
Armed Forces and Police Savings & Loan Association, Inc.
(A Non-Stock Savings and Loan Association)
AFPSLAI Building
Camp General Emilio Aguinaldo
EDSA, Quezon City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying consolidated and parent financial statements present fairly, in all material respects, the financial position of Armed Forces and Police Savings & Loan Association, Inc. and Subsidiary (the "Group") and the financial position of Armed Forces and Police Savings and Loan Association (the "Parent Company") as at December 31, 2017 and 2016, and their financial performance and their cash flows for the years then ended in in accordance with the financial reporting framework as prescribed by the BSP for Non-stock Savings and Loan Associations (NSSLAs).

What we have audited

The financial statements comprise:

- the consolidated and parent statements of financial position as at December 31, 2017 and 2016;
- the consolidated and parent statements of income for the years ended December 31, 2017 and 2016;
- the consolidated and parent statements of comprehensive income for the years ended December 31, 2017 and 2016;
- the consolidated and parent statements of changes in equity for the years ended December 31, 2017 and 2016;
- the consolidated and parent statements of cash flows for the years ended December 31, 2017 and 2016; and
- the notes to the consolidated and parent financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the consolidated and parent financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated and parent financial statements in accordance with the financial reporting framework as prescribed by the BSP for NSSLAs, 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 consolidated and financial statements, management is responsible for assessing the ability of each entity within the Group 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 entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and parent 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 Group'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 ability of each entity within the Group 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 consolidated and parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entities within the Group to cease to continue as a going concern.

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

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

Report on Bureau of Internal Revenue Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 6, 2017, Makati City
SEC A.N. (individual) as general auditors 1176-AR-1, Category A; effective until January 13, 2018
SEC A.N. (firm) as general auditors 0009-FR-4, Category A; effective until July 15, 2018
TIN 221-755-698
BIR A.N. 08-000745-77-2015, issued on January 29, 2015; effective until January 28, 2018
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
April 23, 2018

Armed Forces and Police Savings & Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Financial Position
December 31, 2017 and 2016
(All amounts in thousands of Philippine Peso)

		Consolidated		
	Notes	December 31, 2017	December 31, 2016 *(As restated)*	January 1, 2016 *(As restated)*
ASSETS				
CASH AND CASH EQUIVALENTS	2	8,279,620	12,298,817	13,728,375
AVAILABLE-FOR-SALE INVESTMENTS	3	420,614	94,835	95,855
HELD-TO-MATURITY INVESTMENTS	4	11,593,395	8,761,067	5,075,417
LOANS AND RECEIVABLES, net	5	56,257,150	50,217,019	46,356,356
PROPERTY AND EQUIPMENT, net	7	198,017	181,260	186,391
INVESTMENT PROPERTIES, net	8	78,068	95,717	143,584
OTHER ASSETS, net	10	4,716,273	4,332,726	4,404,623
Total assets		81,543,137	75,981,441	69,990,601
LIABILITIES AND EQUITY				
DEPOSIT LIABILITIES	12	16,039,124	13,784,451	11,910,693
ACCRUED INTEREST AND OTHER EXPENSES		26,438	17,382	15,949
RETIREMENT LIABILITY	9	60,220	76,877	105,734
DIVIDENDS PAYABLE	11	645,747	694,747	527,310
OTHER LIABILITIES	13	2,102,856	1,778,967	1,581,680
Total liabilities		18,874,385	16,352,424	14,141,366
EQUITY ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY				
Members' contributions	11	47,424,175	45,106,235	41,999,099
Surplus reserves	14	7,815,445	7,593,290	6,994,459
Surplus free		7,528,862	7,058,544	7,006,954
Accumulated other comprehensive loss	14	(109,415)	(138,110)	(159,585)
		62,659,067	59,619,959	55,840,927
NON-CONTROLLING INTEREST		9,685	9,058	8,308
Total equity		62,668,752	59,629,017	55,849,235
Total liabilities and equity		81,543,137	75,981,441	69,990,601

(The notes on pages 58 to 120 are integral parts of these financial statements)

Armed Forces and Police Savings & Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Financial Position
December 31, 2017 and 2016
(All amounts in thousands of Philippine Peso)

			Parent Company	
	Notes	December 31, 2017	December 31, 2016 *(As restated)*	January 1, 2016 *(As restated)*
ASSETS				
CASH AND CASH EQUIVALENTS	2	8,255,388	12,287,927	13,718,362
AVAILABLE-FOR-SALE INVESTMENTS	3	420,614	94,835	95,855
HELD-TO-MATURITY INVESTMENTS	4	11,593,395	8,761,067	5,075,417
LOANS AND RECEIVABLES, net	5	56,176,876	50,127,744	46,270,506
PROPERTY AND EQUIPMENT, net	7	197,950	181,193	186,211
INVESTMENT PROPERTIES, net	8	71,178	85,274	131,913
INVESTMENT IN A SUBSIDIARY	6	75,000	75,000	75,000
OTHER ASSETS, net	10	4,713,459	4,331,364	4,402,749
Total assets		81,503,860	75,944,404	69,956,013
LIABILITIES AND EQUITY				
DEPOSIT LIABILITIES	12	16,039,124	13,784,451	11,910,693
ACCRUED INTEREST AND OTHER EXPENSES		26,438	17,382	15,949
RETIREMENT LIABILITY	9	59,787	76,321	105,256
DIVIDENDS PAYABLE	11	645,747	694,747	527,310
OTHER LIABILITIES	13	2,063,121	1,738,743	1,540,421
Total liabilities		18,834,217	16,311,644	14,099,629
EQUITY ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY				
Members' contributions	11	47,424,175	45,106,235	41,999,099
Surplus reserves	14	7,815,445	7,593,290	6,994,459
Surplus free		7,540,323	7,072,106	7,023,160
Accumulated other comprehensive loss	14	(110,300)	(138,871)	(160,334)
Total equity		62,669,643	59,632,760	55,856,384
Total liabilities and equity		81,503,860	75,944,404	69,956,013

(The notes on pages 58 to 120 are integral parts of these financial statements)

Armed Forces and Police Savings & Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Income
For the years ended December 31, 2017 and 2016
(All amounts in thousands of Philippine Peso)

		Consolidated		Parent Company	
	Notes	2017	2016	2017	2016
INTEREST INCOME					
Loans and discount, net	5	9,437,458	9,027,353	9,429,631	9,018,442
Investment in debt and equity securities	3,4	497,234	349,890	497,234	349,890
Cash and cash equivalents and other investments	2	178,921	266,357	178,854	266,295
Installment and sales contract receivables		1,416	1,714	1,416	1,714
		10,115,029	9,645,314	10,107,135	9,636,341
INTEREST EXPENSE ON DEPOSIT LIABILITIES	12	453,819	364,817	453,819	364,817
NET INTEREST INCOME		9,661,210	9,280,497	9,653,316	9,271,524
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	17	640,712	633,851	643,862	635,035
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		9,020,498	8,646,646	9,009,454	8,636,489
OTHER INCOME					
Service charge and other fees		11,952	13,309	11,952	13,309
Miscellaneous	18	37,302	33,539	38,292	32,440
		49,254	46,848	50,244	45,749
OPERATING EXPENSES					
Compensation and fringe benefits		746,007	738,576	743,556	736,184
Collection fees		169,573	145,393	169,573	145,393
Depreciation and amortization	7,8,10	93,765	97,713	93,727	97,577
Donations and charitable contributions		80,225	79,294	80,225	79,294
Management and other professional fees		61,371	82,807	61,371	82,807
Advertising and publicity		58,613	24,678	58,604	24,638
Rent	16	42,041	35,062	42,041	35,062
Security, janitorial and messengerial fees		37,089	31,010	37,089	31,010
Power, light and water		29,050	28,223	29,003	28,166
Entertainment, amusement and recreation		28,018	21,287	27,583	20,812
Staff activities		24,303	14,845	24,208	14,789
Taxes and licenses		9,058	369,836	8,294	369,196
Miscellaneous	19	180,179	146,778	176,813	144,532
		1,559,292	1,815,502	1,552,087	1,809,460
INCOME BEFORE INCOME TAX		7,510,460	6,877,992	7,507,611	6,872,778
INCOME TAX EXPENSE	20	945	2,774	1,449	950
NET INCOME FOR THE YEAR		7,509,515	6,875,218	7,506,162	6,871,828
Attributable to:					
Members of the Parent Company		7,508,263	6,874,472	7,506,162	6,871,828
Non-controlling interest		1,252	746	-	-
		7,509,515	6,875,218	7,506,162	6,871,828

(The notes on pages 58 to 120 are integral parts of these financial statements)

Armed Forces and Police Savings & Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Comprehensive Income
For the years ended December 31, 2017 and 2016
(All amounts in thousands of Philippine Peso)

		Consolidated		Parent Company	
	Notes	2017	2016	2017	2016
NET INCOME FOR THE YEAR		7,509,515	6,875,218	7,506,162	6,871,828
OTHER COMPREHENSIVE INCOME					
Item that may be subsequently reclassified to profit or loss					
Net change in unrealized loss on available-for-sale investments	14	(191)	(705)	(191)	(705)
Item that will not be subsequently reclassified to profit or loss					
Remeasurement of retirement liability, net	9,14	28,921	22,184	28,762	22,168
		28,730	21,479	28,571	21,463
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,538,245	6,896,697	7,534,733	6,893,291
Attributable to:					
Members of the Parent Company		7,536,958	6,895,947	7,534,733	6,893,291
Non-controlling interest		1,287	750	-	-
		7,538,245	6,896,697	7,534,733	6,893,291

(The notes on pages 58 to 120 are integral parts of these financial statements)

Armed Forces and Police Savings & Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(All amounts in thousands of Philippine Peso)

	Consolidated						
	Attributable to members of the Parent Company						
	Members' contributions (Note 11)	Surplus reserves (Note 14)	Surplus free	Accumulated other comprehensive loss (Note 14)	Total	Non-controlling interest	Total equity
Balances at January 1, 2016	41,999,099	6,994,459	7,006,954	(159,585)	55,840,927	8,308	55,849,235
Comprehensive income							
Net income for the year	-	-	6,874,472	-	6,874,472	746	6,875,218
Other comprehensive income	-	-	-	21,475	21,475	4	21,479
Total comprehensive income for the year	-	-	6,874,472	21,475	6,895,947	750	6,896,697
Transactions with owners							
Appropriation of surplus	-	598,831	(598,831)	-	-	-	-
Capital contributions	13,171,118	-	-	-	13,171,118	-	13,171,118
Capital withdrawals	(10,063,982)	-	-	-	(10,063,982)	-	(10,063,982)
Dividends declared	-	-	(6,224,051)	-	(6,224,051)	-	(6,224,051)
Total transactions with owners	3,107,136	598,831	(6,822,882)	-	(3,116,915)	-	(3,116.915)
Balances at December 31, 2016	45,106,235	7,593,290	7,058,544	(138,110)	59,619,959	9,058	59,629,017
Comprehensive income							
Net income for the year	-	-	7,508,263		7,508,263	1,252	7,509,515
Other comprehensive income	-	-		28,695	28,695	35	28,730
Total comprehensive income for the year	-	-	7,508,263	28,695	7,536,958	1,287	7,538,245
Transactions with owners							
Appropriation of surplus	-	222,155	(222,155)	-	-	-	-
Capital contributions	14,405,231	-	-	-	14,405,231	-	14,405,231
Capital withdrawals	(12,087,291)	-	-	-	(12,087,291)	-	(12,087,291)
Dividends declared	-	-	(6,829,152)	-	(6,829,152)	(660)	(6,816,450)
Dividend adjustment	-	-	13,362	-	13,362	-	-
Total transactions with owners	2,317,940	222,155	(7,037,945)	-	(4,497,850)	(660)	(4,498,510)
Balances at December 31, 2017	47,424,175	7,815,445	7,528,862	(109,415)	62,659,067	9,685	62,668,752

(The notes on pages 58 to 120 are integral parts of these financial statements)

Armed Forces and Police Savings & Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(All amounts in thousands of Philippine Peso)

	Parent Company				
	Members' contributions (Note 11)	Surplus reserves (Note 14)	Surplus free	Accumulated other comprehensive loss (Note 14)	Total
Balances at January 1, 2016	41,999,099	6,994,459	7,023,160	(160,334)	55,856,384
Comprehensive income					
Net income for the year	-	-	6,871,828	-	6,871,828
Other comprehensive income	-	-	-	21,463	21,463
Total comprehensive income for the year	-	-	6,871,828	21,463	6,893,291
Transactions with owners					
Appropriation of surplus	-	598,831	(598,831)	-	-
Capital contributions	13,171,118	-	-	-	13,171,118
Capital withdrawals	(10,063,982)	-	-	-	(10,063,982)
Dividends declared	-	-	(6,224,051)	-	(6,224,051)
Total transactions with owners	3,107,136	598,831	(6,822,882)	-	(3,116,915)
Balances at December 31, 2016	45,106,235	7,593,290	7,072,106	(138,871)	59,632,760
Comprehensive income					
Net income for the year	-	-	7,506,162	-	7,506,162
Other comprehensive income	-	-	-	28,571	28,571
Total comprehensive income for the year	-	-	7,506,162	28,571	7,534,733
Transactions with owners					
Appropriation of surplus	-	222,155	(222,155)	-	-
Capital contributions	14.405,231	-	-	-	14.405,231
Capital withdrawals	(12,087,291)	-	-	-	(12,087,291)
Dividends declared	-	-	(6,829,152)	-	(6,829,152)
Dividend adjustment	-	-	13,362	-	13,362
Total transactions with owners	2,317,940	222,155	(7,037,945)	-	(4,497,850)
Balances at December 31, 2017	47,424,175	7,815,445	7,540,323	(110,300)	62,669,643

(The notes on pages 58 to 120 are integral parts of these financial statements)

Armed Forces and Police Savings & Loan Association, Inc.
(A Non-stock Savings and Loan Association)

Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(All amounts in thousands of Philippine Peso)

		Consolidated		Parent Company	
	Notes	2017	2016 *(As restated)*	2017	2016 *(As restated)*
CASH FLOW FROM OPERATING ACTIVITIES					
Cash generated from operations	23	3,768,617	5,738,092	3,758,157	5,222,374
Contributions to retirement plan		(57,106)	(45,145)	(57,106)	(45,145)
Income taxes paid		1,297	(4,671)	1,297	(3,172)
Net cash generated from operating Activities		3,712,808	5,688,276	3,702,348	5,174,057
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from maturity of held-to-maturity investments	4	514,127	2,973,665	514,127	2,973,665
Acquisitions of:					
Held-to-maturity investments	4	(3,329,543)	(6,660,353)	(3,329,543)	(6,660,353)
Property and equipment	7	(62,714)	(44,492)	(62,676)	(44,469)
Investment properties	8	(379)	-	-	-
Available-for-sale investments	3	(345,000)	-	(345,000)	-
Proceeds from sale of:					
Investment properties	8	17,647	42,947	14,347	41,396
Available-for-sale investments	3	20,200	41	20,200	41
Property and equipment	7	508	195	508	195
Net cash used in investing activities		(3,185,154)	(3,687,997)	(3,188,037)	(3,689,525)
CASH FLOW FROM FINANCING ACTIVITIES					
Capital contributions from members		14,405,231	13,171,118	14,405,231	13,171,118
Capital withdrawals by members		(12,087,291)	(10,063,982)	(12,087,291)	(10,063,982)
Dividends paid		(6,864,791)	(6,536,973)	(6,864,790)	(6,022,103)
Net cash used in financing activities		(4,546,851)	(3,429,837)	(4,546,850)	(2,914,967)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,019,197)	(1,429,558)	(4,032,539)	(1,430,435)
CASH AND CASH EQUIVALENTS	2				
January 1		12,298,817	13,728,375	12,287,927	13,718,362
December 31		8,279,620	12,298,817	8,255,388	12,287,927

(The notes on pages 58 to 120 are integral parts of these financial statements)

Armed Forces and Police Savings & Loan Association, Inc.

Notes to the Financial Statements
As at and for the years ended December 31, 2017 and 2016
(In the notes, all amounts are shown in thousands of Philippine Peso unless otherwise stated)

1 General information

The Armed Forces and Police Savings & Loan Association, Inc. (the "Parent Company") is a non-stock savings and loan association ("NSSLA") incorporated in the Philippines and organized under Republic Act (R.A.) No. 8367, otherwise known as the Revised Non-stock Savings and Loan Association Act of 1997, to encourage industry, frugality and the accumulation of savings and judicious utilization of credit among the members. Products available to members are deposits and loans, among others.

The Parent Company is regulated by the Bangko Sentral ng Pilipinas (BSP).

As provided under R.A. No. 8367, the Parent Company is a tax-exempt entity with respect to income derived from its savings and loan activities. Income derived from any other activities conducted for profit not related to the savings and loan activities is subject to the 30% regular tax rate.

The registered office address of the Parent Company is at AFPSLAI Building, Camp General Emilio Aguinaldo, EDSA, Quezon City. It has 732 employees as at December 31, 2017 (2016 - 623 employees).

The Parent Company owns 78% of the outstanding capital stock of Centennial Financing Corporation ("CFC"or "Subsidiary"), a company incorporated and domiciled in the Philippines which is primarily engaged in general financing and investing business. The Parent Company and Subsidiary are collectively referred to herein as the "Group".

The consolidated and separate financial statements have been approved and authorized for issuance on April 20, 2018 by the Company's Board of Trustees (BOT). There are no material events that occurred subsequent to April 20, 2018 until April 23, 2018.

2 Cash and cash equivalents

The account at December 31 consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Short-term investments	7,750,000	11,830,000	7,750,000	11,830,000
Cash in banks	502,596	436,173	478,369	425,288
Cash and other cash items	27,024	32,644	27,019	32,639
	8,279,620	12,298,817	8,255,388	12,287,927

Short-term investments include time deposits, which bear nominal annual interest rates of 1.1% to 4% (2016 - 1.88% to 2.85%) and have maturities of no more than three (3) months.

Interest income earned from cash and cash equivalents of the Group and Parent Company for the year ended December 31, 2017 amounts to P178.9 million and P 178.9 million, respectively (2016 - P266 million; P266 million).

3 Available-for-sale (AFS) investments

The account for the Group and Parent Company at December 31 consists of:

	2017	2016
Corporate bonds	345,472	-
Government debt securities	69,720	91,617
Equity securities	2,672	1,977
	417,864	93,594
Accrued interest on debt securities	2,750	1,241
	420,614	94,835

Interest rates of AFS government debt securities for the year ended December 31, 2017 range from 3.21% to 4.45% (2016 - 3.26% to 7.0%).

Interest income earned from AFS debt investments amounts to P16 million for the year ended December 31, 2017 (2016 - P3.9 million).

During the year, the following gains (losses) were recognized in profit or loss and other comprehensive income:

	2017	2016
Realized gains	-	-
Unrealized gains	(191)	(705)
	(191)	(705)

Accumulated unrealized loss on AFS investments of the Group and the Parent Company as at December 31, 2017 is P1.7 million (2016 - P1.0 million) (Note 14).

4 Held-to-maturity (HTM) investments

The account for the Group and Parent Company at December 31 consists of:

	2017	2016
Government debt securities	-	-
Face amount	11,048,267	8,324,646
Unamortized premium, net	413,711	329,837
	11,461,978	8,654,483
Accrued interest	131,417	106,584
	11,593,395	8,761,067

Interest rates of government debt securities for the year ended December 31, 2017 range from 2.94% to 5.25% (2016 - 2.13% to 8.13%).

Interest income earned from held-to-maturity investments amounts to P481.2 million for the year ended December 31, 2017 (2016 - P345.9 million).

The movements in held-to-maturity investments for the years ended December 31 are summarized as follows:

	2017	2016
At January 1	8,761,067	5,075,417
Additions	3,329,543	6,660,353
Maturities	(514,127)	(2,973,665)
Amortization of premium, net	(7,921)	(3,289)
Accrued interest movement	24,833	2,251
At December 31	11,593,395	8,761,067

Subsequent event

In January and February 2018, the Association, in accordance to its Contingency Funding Plan, sold its Held-to-maturity investments with carrying amount of P5.36B. Proceeds to support the high demand in loan production.

5 Loans and receivables, net

Major classifications of this account at December 31 are as follows:

		Consolidated		Parent Company	
	Note	2017	2016	2017	2016
Loans and discounts					
Consumption and others		60,364,363	54,017,188	60,280,799	53,921,869
Commercial and business		1,628,350	1,269,364	1,628,350	1,269,364
Real estate and housing		150,404	155,313	150,404	155,313
		62,143,117	55,441,865	62,059,553	55,346,546
Unearned discounts		(1,311)	(2,506)	(1,311)	(2,506)
		62,141,806	55,439,359	62,058,242	55,344,040
Other receivables					
Accrued interest receivables		859,959	851,709	859,530	851,388
Accounts receivable		118,322	147,603	117,833	123,212
Sales contract receivables		14,493	16,236	14,493	16,236
Installment sales receivables		55	55	55	55
Advances and receivables from officers and employees		2,110	3,086	2,110	3,087
Due from contractors and suppliers		-	9,183	-	9,183
		994,939	1,027,872	994,021	1,003,161
		63,136,745	56,467,231	63,052,263	56,347,201
Allowance for credit losses	17				
Loans and discounts		(6,762,178)	(6,102,740)	(6,757,970)	(6,095,406)
Other receivables		(117,417)	(147,472)	(117,417)	(124,051)
		(6,879,595)	(6,250,212)	(6,875,387)	(6,219,457)
		56,257,150	50,217,019	56,176,876	50,127,744

Annual fixed interest rates of the total loans and discounts of the Group and the Parent Company for the year ended December 31, 2017 and 2016 range from 8.00% to 28.62%.

Interest income from loans and discounts of the Group and Parent Company for the year ended December 31, 2017 amounts to P9.44 billion and P9.43 billion, respectively (2016 - P9.03 billion; P9.02 billion).

Consumption loans (gross of unearned discounts) at December 31 consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Salary loans	33,160,944	30,369,692	33,160,944	30,369,692
Pension salary loans	15,681,981	13,958,166	15,681,981	13,958,166
Multipurpose loans	8,108,414	7,177,922	8,108,414	7,177,922
Others	3,413,024	2,511,408	3,329,460	2,416,089
	60,364,363	54,017,188	60,280,799	53,921,869

<u>*BSP Reporting*</u>

Details of the Group's loans and discounts portfolio at December 31 are as follows:

As to collateral (gross of unearned discounts)

	Consolidated			
	2017		2016	
	Amount	%	Amount	%
Secured loans				
Deposit hold-out	1,589,409	2.6	1,223,622	2.2
Real estate and chattel	406,119	0.7	372,469	0.7
	1,995,528	3.3	1,596,091	2.9
Unsecured loans	60,147,589	96.7	53,845,774	97.1
	62,143,117	100.0	55,441,865	100.0

	Parent Company			
	2017		2016	
	Amount	%	Amount	%
Secured loans				
Deposit hold-out	1,589,409	2.6	1,223,622	2.2
Real estate and chattel	321,327	0.5	277,150	0.5
	1,910,736	3.1	1,500,772	2.7
Unsecured loans	60,148,817	96.9	53,845,774	97.3
	62,059,553	100.0	55,346,546	100.0

The information on the Group and Parent Company's concentration of credit as to class of loans follows:

	Consolidated				Parent Company			
	2017	%	2016	%	2017	%	2016	%
Community, social and personal activities	60,364,363	97.14	54,017,188	97.43	60,280,799	97.14	53,921,869	97.43
Real estate and chattel	150,404	0.24	155,313	0.28	150,404	0.24	155,313	0.28
Others	1,628,350	2.62	1,269,364	2.29	1,628,350	2.62	1,269,364	2.29
	62,143,117	100.00	55,441,865	100.00	62,059,553	100.00	55,346,546	100.00

Past due loans of the Parent Company are as follows:

	2017	2016
Past due loans		
Secured	54,438	44,428
Unsecured	5,942,582	5,438,256
	5,997,020	5,482,684
Allowance	(5,539,698)	(4,935,443)
	457,322	547,241

Details of the movement in allowance for credit and impairment losses are disclosed in Note 17.

As a general rule, loans including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due.

There was however, a concession with BSP on the classification of current delinquent loan accounts with full deductions not to be considered as past due accounts. However, if arrearages reach 20% of the outstanding loan balance, they will be classified as past due loans with corresponding set-up of provision for loan losses.

6 Investment in a subsidiary

This account consists of the Parent Company's investment in shares of stock of CFC carried at cost of P75 million as at December 31, 2017. CFC was incorporated in the Philippines primarily for the purpose of engaging in general financing and investing business.

The audited financial information of CFC as at and for the years ended December 31 are as follows:

	2017	2016
Total assets	120,229	117,017
Total equity	118,883	115,061
Net income	6,664	4,222

On April 7, 2017, the stockholders of CFC ratified the decision of the Board of Directors to amend the Company's Articles of Incorporation on the shortening of its corporate term up to December 31, 2019.

In view of the shortening of CFC's corporate term, CFC's financial statements as December 31, 2017 is prepared using acceptable alternative basis of accounting. CFC's management has made its best estimate and judgment with regard to the measurement of CFC's assets and liabilities, giving due consideration to available facts and circumstances. Assets and liabilities are valued at its recoverable amount.

7 Property and equipment, net

This account at December 31 consists of:

Consolidated

	2017					
	Land	Buildings, Condominiums and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in progress	Total
Cost						
January 1, 2017	61,492	299,079	406,641	104,209	-	871,421
Additions	-	1,993	35,738	2,818	22,165	62,714
Disposals	-	-	(19,415)	-	-	(19,415)
December 31, 2017	61,492	301,072	422,964	107,027	22,165	914,720
Accumulated depreciation						
January 1, 2017	-	244,113	332,585	96,330	-	673,028
Depreciation	-	10,199	32,393	3,062	-	45,654
Disposals	-	-	(19,112)	-	-	(19,112)
December 31, 2017	-	254,312	345,866	99,392	-	699,570
Allowance for impairment losses (Note 17)	8,702	8,431	-	-	-	17,133
Net book value December 31, 2017	52,790	38,329	77,098	7,635	22,165	198,017

	2016					
	Land	Buildings, Condominiums and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in progress	Total
Cost						
January 1, 2016	61,492	292,360	386,064	97,378	-	837,294
Additions	-	6,719	30,942	6,831	-	44,492
Disposals	-	-	(10,365)	-	-	(10,365)
December 31, 2016	61,492	299,079	406,641	104,209	-	871,421
Accumulated depreciation						
January 1, 2016	-	231,805	308,666	93,299	-	633,770
Depreciation	-	12,308	34,160	3,031	-	49,499
Disposals	-	-	(10,241)	-	-	(10,241)
December 31, 2016	-	244,113	332,585	96,330	-	673,028
Allowance for impairment losses (Note 17)	8,702	8,431	-	-	-	17,133
Net book value December 31, 2016	52,790	46,535	74,056	7,879	-	181,260

Parent Company

	2017					
	Land	Buildings, Condominiums and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in progress	Total
Cost						
January 1, 2017	61,492	297,609	405,481	103,431	-	868,013
Additions	-	1,993	35,701	2,818	22,164	62,676
Disposals	-	-	(19,415)	-	-	(19,415)
December 31, 2017	61,492	299,602	421,767	106,249	22,164	911,274
Accumulated depreciation						
January 1, 2017	-	242,660	331,475	95,552	-	669,687
Depreciation and amortization	-	10,183	32,372	3,061	-	45,616
Disposals	-	-	(19,112)	-	-	(19,112)
December 31, 2017	-	252,843	344,735	98,613	-	696,191
Allowance for impairment losses (Note 17)	8,702	8,431	-	-	-	17,133
Net book value, December 31, 2017	52,790	38,328	77,032	7,636	22,164	197,950

	2016					
	Land	Buildings, Condominiums and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in progress	Total
Cost						
January 1, 2016	61,492	290,890	384,927	96,600	-	833,909
Additions	-	6,719	30,919	6,831	-	44,469
Disposals	-	-	(10,365)	-	-	(10,365)
December 31, 2016	61,492	297,609	405,481	103,431	-	868,013
Accumulated depreciation						
January 1, 2016	-	230,450	307,579	92,536	-	630,565
Depreciation	-	12,210	34,137	3,016	-	49,363
Disposals	-	-	(10,241)	-	-	(10,241)
December 31, 2016	-	242,660	331,475	95,552	-	669,687
Allowance for impairment losses (Note 17)	8,702	8,431	-	-	-	17,133
Net book value, December 31, 2016	52,790	46,518	74,006	7,879	-	181,193

Depreciation and amortization is included as part of operating expenses in the statement of income.

Details of disposals of property and equipment follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Proceeds	508	195	508	195
Net book value	(303)	(124)	(303)	(124)
Gain on disposal	205	71	205	71

As at December 31, 2017 and 2016, the gross carrying amount of fully depreciated property and equipment that are still in use by the Parent Company amounts to P481.9 million and P420.4 million, respectively.

8 Investment properties, net

This account at December 31 consists of:

Consolidated

	2017			2016		
	Land	Buildings and improvements	Total	Land	Buildings and improvements	Total
Cost						
January 1	266,486	24,313	290,799	307,514	25,138	332,652
Additions	379	-	379	3,488	1,585	5,073
Disposals	(26,845)	(1,622)	(28,467)	(44,516)	(2,410)	(46,926)
December 31	240,020	22,691	262,711	266,486	24,313	290,799
Accumulated depreciation						
January 1	-	9,296	9,296	-	7,997	7,997
Depreciation	-	1,629	1,629	-	1,828	1,828
Disposals	-	-	-	-	(529)	(529)
December 31	-	10,925	10,925	-	9,296	9,296
Allowance for impairment losses (Note 17)	172,658	1,060	173,718	184,726	1,060	185,786
Net book value, December 31	67,362	10,706	78,068	81,760	13,957	95,717

Parent Company

	2017			2016		
	Land	Buildings and improvements	Total	Land	Buildings and improvements	Total
Cost						
January 1	260,809	19,548	280,357	300,610	20,372	320,982
Additions	-	-	-	3,165	1,585	4,750
Disposals	(24,535)	-	(24,535)	(42,966)	(2,409)	(45,375)
December 31	236,274	19,548	255,822	260,809	19,548	280,357
Accumulated depreciation						
January 1	-	9,297	9,297	-	7,998	7,998
Depreciation	-	1,629	1,629	-	1,828	1,828
Disposals	-	-	-	-	(529)	(529)
December 31	-	10,926	10,926	-	9,297	9,297
Allowance for impairment losses (Note 17)	172,658	1,060	173,718	184,726	1,060	185,786
Net book value, December 31	63,616	7,562	71,178	76,083	9,191	85,274

As at December 31, 2017, investment properties have aggregate fair value calculated using level 2 fair value technique amounting to P288 million (2016 - P367.3 million) for the Group and P275 million (2016 - P351.9 million) for the Parent Company. Fair value of investment property is determined on the basis of appraisal made by an external appraiser. Valuation method primarily employed by the appraisers is using the market data approach.

Details of disposals of investment properties follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Proceeds	18,087	42,947	14,788	41,396
Net book value	(28,467)	(46,397)	(24,535)	(44,846)
Loss on disposal	(10,380)	(3,450)	(9,747)	(3,450)

Depreciation is included as part of operating expenses in the statement of income.

Rent income from investment properties and direct operating expenses for investment properties of the Group are as follows:

	2017	2016
Rent income from investment properties	753	853
Direct operating expenses for investment properties generating rental income	(23)	(15)
Direct operating expenses for investment properties not generating rental income	(1,705)	(2,677)

Rent income and direct operating expenses on investment properties are recorded as other income under miscellaneous income and other expenses under miscellaneous expenses, respectively, in profit or loss.

9 Retirement plan

The Parent Company has a funded, non-contributory defined pension plan covering all permanent and full-time officers and employees which is managed by a group of Trustees designated by the Parent Company. The plan is payable upon a member's normal retirement at age 60 and the member is entitled to receive 150% of one month's salary at the time of retirement per year of service. However, the members have the option for early retirement. For early retirement, an employee may retire at least the age of fifty (50) with no less than ten (10) years of service and will receive 100% of the normal retirement benefit. The plan also allows retirement before reaching the age of fifty (50) with at least 10 years of service with benefits ranging from 50% to 100% of the normal retirement benefit depending on the number of completed years of service.

The Subsidiary maintains an unfunded defined benefit retirement plan covering its regular employees and corporate officers and directors. The plan is payable upon a member's normal retirement at age 60 and separation from employment with at least one year of credited service. For voluntary retirement for employees, the benefit is equivalent to 50% of the employee's basic monthly salary for a minimum of 1 year of service with the rate factor progressing to a maximum of 125% of basic monthly salary for service years of 10 or more and 100% of monthly salary for every year of credited service for voluntary retirement for corporate officers and directors.

On July 1, 2017, AFPLSAI amended the retirement plan to include additional retirement option which provides benefits equal to 250% of one month's salary at the time of retirement per year of service for employees who will retire at the age of fifty (50) with no less than ten (10) years of service.

The retirement liability recognized in the statements of financial position as at December 31 are determined as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Present value of obligation	627,542	600,515	627,109	599,959
Fair value of plan assets	(567,322)	(523,638)	(567,322)	(523,638)
Retirement liability recognized in the statements of financial position	60,220	76,877	59,787	76,321

The components of retirement expense recognized as part of compensation and fringe benefits and in the statement of comprehensive income are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Recognized in profit or loss				
Current service cost	32,569	33,614	32,547	33,536
Net interest cost	4,699	4,865	4,620	4,842
Past service cost	32,168	-	32,168	-
	69,436	38,479	69,335	38,378

The components of remeasurements recognized in other comprehensive income follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Remeasurements recognized in other comprehensive income				
Changes in financial assumption	27,762	20,004	27,697	20,006
Experience adjustments	9,533	9,220	9,439	9,202
Return on plan assets	(8,374)	(7,040)	(8,374)	(7,040)
	28,921	22,184	28,762	22,168

The movements in the present value of defined benefit obligations for the years ended December 31 are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
At January 1	600,515	655,433	599,959	654,955
Current service cost	32,569	33,614	32,547	33,536
Interest cost	30,881	30,151	30,802	30,128
Past service cost	32,168	-	32,168	-
Benefits paid	(29,419)	(89,452)	(29,419)	(89,452)
Benefits paid directly by the Association	(1,811)	-	(1,811)	-
Remeasurements	(37,361)	(29,231)	(37,137)	(29,208)
At December 31	627,542	600,515	627,109	599,959

The movements in the fair value of plan assets of the Parent Company for the years ended December 31 are as follows:

	2017	2016
At January 1	523,638	549,699
Interest income	26,182	25,286
Contributions	55,295	45,145
Benefits paid	(29,419)	(89,452)
Remeasurement - return on plan assets	(8,374)	(7,040)
At December 31	567,322	523,638

The Subsidiary's retirement plan is unfunded as at December 31, 2017 and 2016.

The following comprises the Parent Company's plan assets at December 31:

	2017		2016	
	Amount	%	Amount	%
Government securities	336,655	59	197,233	42
Cash and cash equivalents	176,946	31	249,697	48
Others	53,721	10	76,708	10
	567,322	100	523,638	100

Others pertains to loans and receivables from employees, other accrued income and other miscellaneous assets.

The carrying value of the plan assets as at December 31, 2017 and 2016 is equivalent to its fair value.

The Parent Company has no other transactions with the fund other than contributions and benefit payments presented above for the year ended December 31, 2017 and 2016.

In 2017, the actual return on plan assets was P17.8 million (2016 - P18.2 million). Expected contributions to the retirement plan of the Parent Company for the year ending December 31, 2018 amount to P53.7 million.

The principal actuarial assumptions used were as follows:

	Parent Company		Subsidiary	
	2017	2016	2017	2016
Discount rate	5.60%	5.00%	5.91%	4.76%
Future salary increases	5.00%	5.00%	5.00%	5.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics generally used for local actuarial valuation purposes.

Discount rate

Discount rates were based on PDEX PDST-R2 government bond rates at various tenors as at valuation dates, adjusted to zero-coupon rates using the re-investment method. Rates for intermediate durations were interpolated. The rates were then weighted by the expected benefits payments at those durations to arrive at the single weighted average discount rate.

Future salary increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus further increases for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

The defined benefit plan typically exposes the Group to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk of the plan of the Parent Company. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Parent Company. However, the Parent Company believes that due to the long-term nature of the pension liability, the mix of investment holdings of the plan is an appropriate element of the Parent Company's long term strategy to manage the plan efficiently.

The Group ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Group's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is discussed as necessary to better ensure the appropriate asset-liability matching.

The projected maturity analysis of retirement benefit payments as at December 31 follows:

	2017	2016
Less than a year	50,275	48,673
Between 1 to 5 years	338,691	237,480
Between 5 to 10 years	402,042	387,144
Between 10 to 15 years	342,711	372,731
More than 15 years	827,480	714,728

The sensitivity of the defined benefit obligation of the Parent Company to changes in the weighted principal assumptions as at December 31, follows:

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
December 31, 2017			
Discount rate	+/-1%	Decrease by 7.0%	Increase by 8.0%
Future salary increases	+/-1%	Increase by 8.0%	Decrease by 7.0%
December 31, 2016			
Discount rate	+/-1%	Decrease by 1.0%	Increase by 16.0%
Future salary increases	+/-1%	Increase by 16.0%	Decrease by 1.0%

The sensitivity of the defined benefit obligation of the Subsidiary to changes in the weighted principal assumptions as at December 31 follows:

	Impact on retirement benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
December 31, 2017			
Discount rate	+/-1%	Decrease by 18%	Increase by 18%
Future salary increases	+/-1%	Increase by 17%	Decrease by 17%
December 31, 2016			
Discount rate	+/-1%	Decrease by 18%	Increase by 18%
Future salary increases	+/-1%	Increase by 16%	Decrease by 16%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the project unit credit method at the end of the reporting period) has been applied as when calculating the retirement asset recognized within the statements of financial position.

10 Other assets, net

This account at December 31 consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Advances to members	4,658,989	4,251,520	4,658,989	4,251,520
Software cost, net	7,289	47,974	7,289	47,974
Stationeries and other unused supplies	17,364	16,684	17,364	16,684
Deferred tax assets, net (Note 20)	9,136	7,370	7,456	6,297
Prepaid expenses	11,484	2,457	11,484	2,457
Miscellaneous	13,998	8,708	12,864	8,419
	4,718,260	4,334,713	4,715,446	4,333,351
Allowance for impairment loss (Note 17)	(1,987)	(1,987)	(1,987)	(1,987)
	4,716,273	4,332,726	4,713,459	4,331,364

Advances to members pertain to cash advances to members to be settled against future dividends.

Miscellaneous assets include creditable withholding taxes and refundable security deposits.

The movements in software cost of the Group and Parent Company are summarized as follows:

	2017	2016
At January 1	47,974	94,360
Additions	5,797	-
Disposal	-	-
Amortization	(46,482)	(46,386)
At December 31	7,289	47,974

11 Members' contributions

The account represents contributions from members of the Parent Company comprising fixed and withdrawal capital which are both payable on demand. These contributions are considered as puttable instruments which qualify as equity instruments. See Note 28.12.

The members of the Parent Company are entitled to dividends on their capital contributions as declared by the Board of Trustees (BOT) from time to time. In 2017, the BOT declared dividends at a rate of about 16% or P6.8 billion on members' contributions for members as at December 31, 2016 (2016 - 15.5% or P6.2 billion for members as at December 31, 2015).

On February 28, 2018, the Board of Trustees approved dividends at a rate of 16% or P7.2 billion for members as at December 31, 2017. The BSP approval was received on April 12, 2018.

12 Deposit liabilities

This account consists of savings deposit from members of the Parent Company amounting to P16 billion as at December 31, 2017 (2016 - P13.8 billion). The Subsidiary has no deposit liabilities or any liability of similar nature as at December 31, 2017 and 2016.

In 2017 and 2016, deposit liabilities carry an annual interest rate of 3.0%. Interest expense on deposit liabilities for the year ended December 31, 2017 amounts to P453.8 million (2016 - P364.8 million).

13 Other liabilities

This account at December 31 consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Accounts payable	1,232,730	952,404	1,232,119	951,726
Payable to members	701,984	638,441	701,984	638,441
Insurance payable	68,521	74,608	68,521	74,608
Documentary stamp tax payable	1,250	2,990	1,250	2,990
Taxes payable	19,001	17,115	18,882	17,062
Unearned income and other deferred credits	5,495	14,756	5,376	14,637
Miscellaneous	73,875	78,653	34,989	39,279
	2,102,856	1,778,967	2,063,121	1,738,743

Accounts payable consists of payable to suppliers, remittances from members with issued retirement clearances and membership termination.

Miscellaneous liabilities consist of sundry credits, retention payable and other payables.

14 Equity

Surplus Reserves

The Consolidated and Parent Company's reserves as at December 31 consist of:

	2017	2016
Withdrawable share reserve	948,484	902,125
Building fund reserve	3,363,077	542,807
Ledger discrepancies reserve	175,854	175,854
Contingency reserve	3,328,030	5,972,504
	7,815,445	7,593,290

a. Withdrawable share reserve

In compliance with the BSP regulations, the Parent Company maintains, at a minimum, withdrawable share reserve equivalent to 2% of the aggregate capital contributions of the members. The reserve shall first be adjusted before the Parent Company declares and pays dividends at any time of the year. The Parent Company shall not distribute to its members any portion of its net income if the withdrawable share reserve is less than the required balance, or if by such payment of distribution, the reserve is reduced to an amount below the required balance.

b. Building fund reserve

This reserve is maintained to cover cost of the construction or expansion of buildings, acquisition of furniture, fixtures and equipment. In 1992, BSP granted an exemption from the previously required 5% building fund reserve under the Manual of Regulations for Non-Bank Financial Institutions. Appropriations subsequent to that date are based on amounts set by management amounting to P3.4 billion (2016 - P542.8 million).

c. Ledger discrepancies reserve

Under Resolutions Nos. 1374 and 1096 of the Monetary Board of the BSP, the Parent Company was required to set up reserves to cover unrecoverable ledger discrepancies.

d. Contingency reserve

Contingency reserve is set up:

a) to meet the capital ratio set by the board based on the combined surplus free and surplus reserves against the total assets of the Parent Company;
b) as reserve, in case there are unbooked capital adjustments required by the BSP
c) for accrued interest and other income not yet received but already recorded by the Parent Company;
d) for valuation reserve for Centennial Savings Bank (CSB) assets transferred to Parent Company; and
e) to support certain major projects that are to be undertaken in the following year.

This is also set aside for social projects of the Parent Company until the funds are fully utilized.

The respective fund for each project may be freed up upon utilization of the corresponding amount. The allocation or set up of these reserves are with prior approval of the BOT. In 2017, the BOT approved the appropriation of its surplus free amounting to P222.2 million (2016 - P598.8 million).

Accumulated other comprehensive loss

Details and movements of the account for the years ended December 31 are summarized below:

		Consolidated		Parent Company	
	Note	2017	2016	2017	2016
Fair value reserve on available-for-sale securities					
At January 1		(1,685)	(980)	(1,685)	(980)
Net unrealized fair value loss	3	(191)	(705)	(191)	(705)
At December 31		(1,876)	(1,685)	(1,876)	(1,685)
Remeasurement of retirement liability					
At January 1		(136,210)	(158,394)	(137,186)	(159,354)
Remeasurement		28,921	22,184	28,762	22,168
At December 31		(107,289)	(136,210)	(108,424)	(137,186)
		(109,165)	(137,895)	(110,300)	(138,871)
Attributable to:					
Non-controlling interest		250	215	-	-
Members of the Parent Company		(109,415)	(138,110)	(110,300)	(138,871)

15 Maturity profile of assets and liabilities

The tables below summarize the maturity profile of the financial assets and liabilities of the Group and the Parent Company.

Consolidated

	2017		
	Current	Non-current	Total
Assets			
Cash and cash equivalents	8,279,620	-	8,279,620
AFS investments	-	420,614	420,614
HTM investments	380,704	11,212,691	11,593,395
Loans and receivables	-	-	-
Loans and discount	6,336,331	55,806,786	62,143,117
Other receivables	985,551	9,388	994,939
	15,982,206	67,449,479	83,431,685
Liabilities			
Deposit liabilities	16,039,124	-	16,039,124
Accrued expenses and other expenses	26,438	-	26,438
Other liabilities	2,102,856	-	2,102,856
	18,168,418	-	18,168,418

	2016		
	Current	Non-current	Total
Assets			
Cash and cash equivalents	12,298,817	-	12,298,817
AFS investments	-	94,835	94,835
HTM investments	513,786	8,247,281	8,761,067
Loans and receivables			
Loans and discount	5,428,666	50,013,199	55,441,865
Other receivables	1,014,093	13,779	1,027,872
	19,255,362	58,369,094	77,624,456
Liabilities			
Deposit liabilities	13,784,451	-	13,784,451
Accrued expenses and other expenses	17,382	-	17,382
Other liabilities	1,778,967	-	1,778,967
	15,580,800	-	15,580,800

Parent Company

	2017		
	Current	Non-current	Total
Assets			
Cash and cash equivalents	8,255,388	-	8,255,388
AFS investments	-	420,614	420,614
HTM investments	380,704	11,212,691	11,593,395
Loans and receivables			
Loans and discount	6,308,888	55,750,665	62,059,553
Other receivables	984,633	9,388	994,021
	15,929,613	67,393,358	83,322,971
Liabilities			
Deposit liabilities	16,039,124	-	16,039,124
Accrued expenses and other expenses	26,438	-	26,438
Other liabilities	2,063,121	-	2,063,121
	18,128,683	-	18,128,683

	2016		
	Current	Non-current	Total
Assets			
Cash and cash equivalents	12,287,927	-	12,287,927
AFS investments	-	94,835	94,835
HTM investments	620,370	8,140,697	8,761,067
Loans and receivables			
Loans and discount	5,390,226	49,956,320	55,346,546
Other receivables	989,383	13,778	1,003,161
	19,287,906	58,205,630	77,493,536
Liabilities			
Deposit liabilities	13,784,451	-	13,784,451
Accrued expenses and other expenses	17,382	-	17,382
Other liabilities	1,738,743	-	1,738,743
	15,540,576	-	15,540,576

16 Leases

The Parent Company leases the premises occupied by most of its branches. The lease contracts are for periods ranging from one to five years, renewable upon mutual agreement of the Parent Company and the lessors. The major component of the lease expenditures of the Parent Company pertain to leased lines for various communication links. Rent expense in the statements of income amounted to P42.0 million and P35.1 million in 2017 and 2016, respectively for both the Group and the Parent Company.

Future minimum lease payments of the Parent Company under non-cancellable lease agreements as at December 31 follow:

	2017	2016
Within one year	8,701	6,752
After one year but not more than five years	9,693	5,199
More than five years	2,692	2,719
	21,086	14,670

17 Allowance for credit and impairment losses

Consolidated

	Loans and discounts (Note 5)	Investment properties (Note 8)	Other receivables (Note 5)	Property and equipment (Note 7)	Other assets (Note 10)	Total
January 1, 2016	5,494,231	181,071	127,135	17,133	1,987	5,821,557
Provision for impairment losses	612,858	10,573	20,627	-	-	644,058
Reversal of impairment losses	(4,349)	(5,858)	-	-	-	(10,207)
Write-offs	-	-	(290)	-	-	(290)
December 31, 2016	6,102,740	185,786	147,472	17,133	1,987	6,455,118
Provision for impairment losses	663,100	-	6,855	-	-	669,955
Reversal of impairment losses	(3,662)	(12,068)	(13,513)	-	-	(29,243)
Write-offs	-	-	(23,397)	-	-	(23,397)
December 31, 2017	6,762,178	173,718	117,417	17,133	1,987	7,072,433

Parent Company

	Loans and discounts (Note 5)	Investment properties (Note 8)	Other receivables (Note 5)	Property and equipment (Note 7)	Other assets (Note 10)	Total
January 1, 2016	5,485,713	181,071	103,686	17,133	1,987	5,789,590
Provision for impairment losses	612,858	10,573	20,627	-	-	644,058
Reversal of impairment losses	(3,165)	(5,858)	-	-	-	(9,023)
Write-offs	-	-	(262)	-	-	(262)
December 31, 2016	6,095,406	185,786	124,051	17,133	1,987	6,424,363
Provision for impairment losses	663,100	-	6,855	-	-	669,955
Reversal of impairment losses	(536)	(12,068)	(13,489)	-	-	(26,093)
December 31, 2017	6,757,970	173,718	117,417	17,133	1,987	7,068,225

18 Miscellaneous income

This account for the years ended December 31 consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Recovery on charged-off assets	31,142	19,981	34,286	21,165
Insurance experience refund	-	9,128	-	9,128
Rental income	753	853	753	853
Others	5,407	3,577	3,253	1,294
	37,302	33,539	38,292	32,440

Income from insurance experience refund pertains to refund from the Parent Company's loan insurer.

19 Miscellaneous expense

This account for the years ended December 31 consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Software maintenance	34,777	35,905	34,777	35,905
Commissions	32,750	17,353	32,750	17,353
Stationeries and supplies	23,371	22,042	23,291	21,954
Traveling, fuel and lubricants	20,838	17,407	20,770	17,353
Postage, telephone, cable and telegram	15,239	13,408	15,170	13,335
Loss from assets sold, net	10,175	3,379	9,542	3,379
Repairs and maintenance	8,086	7,999	8,073	7,990
Freight	7,629	1,802	7,629	1,802
Meetings and conferences	4,796	4,352	4,703	4,280
Litigation/Asset acquired expense	3,308	3,217	2,954	2,886
Insurance	1,463	1,604	1,444	1,601
Membership fees and dues	853	959	817	922
Others	16,894	17,351	14,893	15,772
	180,179	146,778	176,813	144,532

20 Income tax expense

As discussed in Note 1, the Parent Company is organized under R.A. No. 8367, "Revised Non-Stock Savings and Loan Association Act of 1997", which exempts the Parent Company from payment of taxes in relation to income derived from its savings and loan activities.

Components of income tax expense at December 31 arising from activities not covered by exemptions under R.A. No. 8367 are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Current	2,779	3,738	2,608	2,422
Deferred	(1,834)	(964)	(1,159)	(1,472)
	945	2,774	1,449	950

The above activities not covered in the exemptions under R.A. No. 8367 pertain to the activities of Centennial Savings Bank (former subsidiary) that was absorbed by the Parent Company.

The components of the Group and the Parent Company's recognized deferred tax assets (liability) follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Deferred tax assets				
Allowance for credit and losses	8,718	8,497	7,456	6,297
Retirement asset	130	167	-	-
Net operating loss carryover (NOLCO)	1,720	-	-	-
Excess of minimum corporate income tax (MCIT) over regular income tax (RIT)	171	-	-	-
	10,739	8,664	7,456	6,297
Deferred tax liabilities				
Unrealized gain on foreclosure of collateral	(1,603)	(1,294)	-	-
	(1,603)	(1,294)	-	-
	9,136	7,370	7,456	6,297

The Subsidiary did not recognize deferred tax assets from NOLCO amounting to P5.3 million (2016 - P6.4 million deferred tax assets from allowance for credit losses) in view of shortening of its corporate life.

The Group's net deferred tax assets are included as part of other assets (Note 10) in the statement of financial position.

A reconciliation between the income tax expense at the statutory income tax rate to the effective income tax expense relating to taxable activities follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Statutory income tax	2,254,148	2,063,647	2,252,283	2,061,833
Tax impact of:				
Non-deductible expenses	118	29	-	-
Income subjected to lower tax rate	(20)	(19)	-	-
Movement in unrecognized DTA	(2,466)	(2,556)	-	(2,557)
Non-taxable income	(2,250,835)	(2,058,327)	(2,250,834)	(2,058,326)
Effective income tax expense	945	2,774	1,449	950

21 Related party transactions

The table below summarizes the transactions and balances with its related parties.

Consolidated

	2017	2016	Description
Salaries and other short-term benefits			
Key management personnel and trustees			
Salaries	12,301	11,718	Compensation of key management personnel, which are also decision makers of the Group and the Parent Company
Other employee benefits	30,977	28,896	
	43,278	40,614	

Parent Company

	2017	2016	Description
Salaries and other short-term benefits			
Key management personnel and trustees			
Salaries and wages	11,821	11,358	Compensation of key management personnel, which are also decision makers of the Group and the Parent Company
Other allowances and benefits	29,853	28,626	
	41,674	39,984	

Dividend income from the Subsidiary in 2017 amounted to P2.3 million (2016 - 0.94 million) which was eliminated in the consolidated financial statements. Dividend income is presented under miscellaneous income in the books of Parent Company.

Loans receivable from members of the Parent Company amounts to P62,059,553 (2016 - 55,346,546) (Note 5).

Deposit liabilities from members of the Parent Company amounts to P16,039,124 (2016 - 13,784,451) (Note 12).

For BSP reporting purposes, details of dealings with Directors, Officers, Stockholders and Related Interest (DOSRI) loans of the Parent Company are as follows:

	2017	2016
Total outstanding DOSRI loans (in millions)	15.23	16.13
Percent of DOSRI loans to total loans	0.00%	0.00%
Percent of unsecured DOSRI loans to total DOSRI loans	99.57%	99.96%
Percent of past due or NPL DOSRI loans to total DOSRI loans	0.00%	0.00%

22 Basic quantitative indicators of financial performance

The key financial performance indicators of the Parent Company are as follows:

	2017	2016
Return on average equity	12.27%	13.42%
Return on average assets	9.53%	10.01%
Net interest margin	15.05%	19.24%

23 Cash generated from operations

Details of cash generated from operations for the years ended December 31 follow:

		Consolidated		Parent Company	
	Notes	2017	2016	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES					
Income before income tax		7,510,460	6,877,992	7,507,611	6,872,778
Adjustments for:					
Interest income		(10,115,029)	(9,645,314)	(10,105,719)	(9,636,341)
Interest received		10,080,547	9,598,550	10,080,910	9,591,331
Interest expense		453,819	364,817	453,819	364,817
Interest paid		(444,763)	(363,384)	(444,763)	(363,384)
Depreciation and amortization	7,8,10	93,765	97,713	93,727	97,577
Retirement expense	9	69,436	38,479	69,335	38,378
Provision for credit and impairment losses	17	640,712	633,851	643,862	635,035
Loss from assets sold	19	10,175	3,379	9,542	3,379
Changes in operating assets and liabilities:					
(Increase) decrease in assets:					
Loans and receivables		(6,676,072)	(4,444,847)	(6,697,896)	(4,444,037)
Other assets		(429,104)	(9,157)	(427,427)	(9,334)
Increase (decrease) in liabilities:					
Deposit liabilities		2,245,617	1,872,325	2,245,616	1,872,325
Accrued interest and other expenses		9,056	1,433	9,056	1,433
Other liabilities		319,998	712,255	320,484	198,417
Cash generated from operations		3,768,617	5,738,092	3,758,157	5,222,374

24 Contingent liabilities

As at December 31, 2017 and 2016, there are pending lawsuits and claims against the Group. In the opinion of the Management, after reviewing all legal actions and proceedings with legal counsels, the aggregate liability, if any, arising there from will not have a material effect on the Group's financial condition and performance.

25 Restatement

Certain amounts in the January 1, 2016 and December 31, 2016 financial statements have been restated to effect the reclassification of advances to members (Note 10) that will be settled against future dividends. The impact of the reclassification is as follows:

Consolidated

	As at December 31, 2016			As at January 1, 2016		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
ASSETS						
Other assets	81,206	4,251,520	4,332,726	118,592	4,286,031	4,404,623
Total assets	71,729,921	4,251,520	75,981,441	65,704,570	4,286,031	69,990,601
LIABILITIES						
Dividends payable	3,910,820	(3,216,073)	694,747	2,980,201	(2,452,891)	527,310
Other liabilities	1,140,526	638,441	1,778,967	1,066,809	514,871	1,581,680
Total liabilities	18,930,056	(2,577,632)	16,352,424	16,079,386	(1,938,020)	14,141,366
EQUITY						
Surplus free	229,392	6,829,152	7,058,544	782,903	6,224,051	7,006,954
Total liabilities and equity	71,729,921	4,251,520	75,981,441	65,704,570	4,286,031	69,990,601

Parent Company

	As at December 31, 2016			As at January 1, 2016		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
ASSETS						
Other assets	79,844	4,251,520	4,331,364	116,718	4,286,031	4,402,749
Total assets	71,692,884	4,251,520	75,944,404	65,669,982	4,286,031	69,956,013
LIABILITIES						
Dividends payable	3,910,820	(3,216,073)	694,747	2,980,201	(2,452,891)	527,310
Other liabilities	1,100,302	638,441	1,738,743	1,025,550	514,871	1,540,421
Total liabilities	18,889,276	(2,577,632)	16,311,644	16,037,649	(1,938,020)	14,099,629
EQUITY						
Surplus free	242,954	6,829,152	7,072,106	799,109	6,224,051	7,023,160
Total liabilities and equity	71,692,884	4,251,520	75,944,404	65,669,982	4,286,031	69,956,013

26 Critical accounting estimates, assumptions and judgments

The Group makes estimates, assumptions and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates, assumptions and judgments 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. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

26.1 Critical accounting estimates and assumptions

(a) Credit losses of loans and receivables (Notes 5 and 17)

The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the statements of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowance against individually significant loans and receivables, the Group 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 historical loss experience of the Group with its borrowers.

(b) Retirement obligation

The Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 9 and include, among others, the discount rate and future salary increases. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. The present value of the defined benefit obligations of the Group at December 31, 2017 and 2016 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either government securities, corporate bonds or other forms of investments.

Bond markets may experience volatility, which could affect the value of pension plan assets. Actual results that differ from the Group's assumptions are reflected as remeasurements in other comprehensive income. The Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The sensitivity analysis on key assumptions is disclosed in Note 9.

26.2 Critical judgments in applying the entity's accounting policies

(a) Impairment of property and equipment, investment properties and software cost (Note 7, 8 and 10)

The Group assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. The factors that the Group considers when assessing recoverability includes significant under performance relative to expected historical or projected future operating results, significant negative industry or economic trends, or significant changes in the manner of use of the assets or strategy for the business. If any such indication exists, the asset is tested for impairment by comparing its recoverable amount to its carrying amount.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

In determining the present value of the estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements.

Management believes that the amount of impairment losses recognized as at December 31, 2017 and 2016 is adequate to bring the Group's non-financial assets to its carrying recoverable balance at each reporting date. Details of the Group's and Parent Company's non-financial assets are disclosed in Notes 7, 8 and 10.

(b) Classification to held-to-maturity investments (Note 4)

The classification to held-to-maturity investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Ability to hold the debt securities to maturity is demonstrated by the availability of financial resources to continue to finance the investments until maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as Available-for-sale investments. The investments would therefore be measured at fair value and not at amortized cost.

27 Financial risk and capital management

27.1 Financial risks

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk.

The Group recognizes that risk management is an activity critical to its success. It is committed to ensure constant adherence to best practices and standards and to apply prudence and accountability in its risk-taking activities. The Group exposes itself to a variety of risks, particularly financial risks arising from the use of financial instruments. Consequently, it has put in place the appropriate risk management structures, policies and processes to address each type of risk.

The succeeding sections will discuss the Parent Company's risk management structure. The Subsidiary is yet to formalize its risk management policies, but it is under the direct supervision of the Parent Company.

Risk Management Structure of the Parent Company

The following principles summarize the Parent Company's overall approach to risk management:

The Board of Trustees has overall responsibility for the establishment and oversight of the Parent Company's risk management framework. The BOT has established six standing committees, which are responsible for developing and monitoring the Parent Company's risk management policies in their specified areas. All board committees have executive and non- executive members and report regularly to the BOT on their activities.

The committees are as follows:

- *Risk Oversight Committee* - maintains and ensures that an adequate risk management plan is in place and working properly which includes comprehensive risk management approach, detailed structure of limits, guidelines and other parameters.

- *Audit and Compliance Committee* - resolves any disagreements between management and the auditors (internal and external) regarding financial reporting and to ensure that the Parent Company is in compliance with the statutory requirement of the regulatory bodies.

- *Governance Committee* - ensures that the BOT governance system works effectively and that the members of the BOT and the senior management strictly observe proper corporate governance practices.

- *Compensation Committee* - formulates policies and establish transparent procedures for developing compensation package, and other benefits to rank and file, supervisors and officers to ensure sound wage and salary structure that gives due recognition to occupational skills, responsibilities and potentials of individuals.

- *Credit and Collection Committee* - formulates credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements; to establish authorization structure for approval and renewal of credit facilities.

- *Amendment Committee* - recommends and endorses any changes in the Parent Company's By-laws.

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

The Audit and Compliance Committee is responsible for monitoring compliance with the Parent Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Parent Company. The Audit and Compliance Committee is assisted in these functions by Internal Audit Division (IAD) and Corporate Compliance Office (CCO). IAD undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee.

Risk Management Structure of the Subsidiary

Risk management of its Subsidiary is under the supervision of the Parent Company which is considered appropriate given the limited volume of transactions.

27.1.1 Credit risk

Credit risk, the risk of financial loss of the Group if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, arises principally from the Group's loans and receivables and investment securities. For risk management reporting purposes, the Group considers the elements of its credit risk exposure and monitors these exposures regularly.

Credit risk is the single largest risk for the Group's operations; management therefore carefully manages its exposure to credit risk. Each branch has a chief credit risk officer who reports on all credit related matters to regional management and to the Credit and Collection Committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to central approval. Regular audit of business units and Credit and Collection Committee processes are undertaken by IAD.

Credit risk and concentration of assets and liabilities

The Group manages credit risk by setting limits for individual borrowers. The Group also monitors credit exposures and continually assesses the creditworthiness of counterparties.

With respect to loans and receivables, there is no concentration of credit risk given that there is a large volume of individual borrowers with similar credit characteristics and loan availments.

The maximum exposure to credit risk relating to significant on-balance sheet financial assets are as follows:

Consolidated

	2017	2016
Cash and cash equivalents (excluding cash on hand)	8,252,596	12,266,173
Available-for-sale investments - debt securities	417,942	92,858
Held-to-maturity investments	11,593,395	8,761,067
Loans and receivables, net	56,257,150	50,217,019
	76,521,083	71,337,117

Parent Company

	2017	2016
Cash and cash equivalents (excluding cash on hand)	8,228,369	12,255,288
Available-for-sale investments - debt securities	417,942	92,858
Held-to-maturity investments	11,593,395	8,761,067
Loans and receivables, net	56,176,876	50,127,744
	76,416,582	71,236,957

For secured lending, the Parent Company grants loan up to 70% of the fair market value of the collateral. The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Group follows the guidelines on the acceptability of the types of collateral and valuation parameters. The main types of collateral obtained for loans and receivables are deposit hold-out, real estate and chattels. For unsecured lending, the Group performs a comprehensive credit evaluation process before each loan is approved.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during review of the adequacy of the allowance for impairment losses.

Where possible, the Group seeks to grant special accommodation to borrowers with past due account modifying some, if not all, the terms and conditions of the previous loans. This may involve extending the payment arrangements and the agreement of new loan conditions. This is to assist borrowers towards the settlement of the obligation, taking into account their capacity to pay.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

Management is confident in its ability to continue to control and sustain minimal exposures of credit risk to the Group at reporting date based on the following:

- 88.71% (2016 - 88.48%) of the loans and receivables portfolio are considered neither past due nor impaired;
- The Group continues to adopt a stringent selection process upon granting of loans and receivables; and
- 100% (2016 - 100%) of held-to-maturity and available-for-sale debt securities are invested in fixed rate treasury notes and retail treasury bonds which are fully guaranteed by the Republic of the Philippines.

Concentrations of risks of financial assets with credit risk exposure

The Group's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

Consolidated

	2017			
	Loans and Receivables	Loans and Advances to Banks and Others	Investment Securities	Total
Community, social and personal activities	60,364,363	-	-	60,364,363
Government	-	-	12,011,338	12,011,338
Financial intermediaries	-	8,252,596	-	8,252,596
Real estate	150,404	-	-	150,404
Others	2,623,289	-	-	2,623,289
	63,138,056	8,252,596	12,011,338	83,401,990
Less:				
Unearned discount	1,311	-	-	1,311
Allowance for credit and impairment losses	6,879,595	-	-	6,879,595
	56,257,150	8,252,596	12,011,338	76,521,084

	2016			
	Loans and Receivables	Loans and Advances to Banks and Others	Investment Securities	Total
Community, social and personal activities	54,017,188	-	-	54,017,188
Government	-	-	8,853,925	8,853,925
Financial intermediaries	-	12,266,173	-	12,266,173
Real estate	155,313	-	-	155,313
Others	2,297,236	-	-	2,297,236
	56,469,737	12,266,173	8,853,925	77,589,835
Less:				
Unearned discount	2,506	-	-	2,506
Allowance for credit and impairment losses	6,250,212	-	-	6,250,212
	50,217,019	12,266,173	8,853,925	71,337,117

Parent Company

	2017			
	Loans and Receivables	Loans and Advances to Banks and Others	Investment Securities	Total
Community, social and personal activities	60,280,799	-	-	60,280,799
Government	-	-	12,011,338	12,011,338
Financial intermediaries	-	8,228,369		8,228,369
Real estate	150,404	-	-	150,404
Others	2,622,371	-	-	2,622,371
	63,053,574	8,228,369	12,011,338	83,293,281
Less:				
Unearned discount	1,311	-	-	1,311
Allowance for credit and impairment losses	6,875,387	-	-	6,875,387
	56,176,876	8,228,369	12,011,338	76,416,583

	2016			
	Loans and Receivables	Loans and Advances to Banks and Others	Investment Securities	Total
Community, social and personal activities	53,921,869	-	-	53,921,869
Government	-	-	8,853,925	8,853,925
Financial intermediaries	-	12,255,288	-	12,255,288
Real estate	155,313	-	-	155,313
Others	2,272,525	-	-	2,272,525
	56,349,707	12,255,288	8,853,925	77,458,920
Less:				
Unearned discount	2,506	-	-	2,506
Allowance for credit and impairment losses	6,219,457	-	-	6,219,457
	50,127,744	12,255,288	8,853,925	71,236,957

Loans and advances to banks and others comprise of cash and cash equivalents and other investments. Investment securities comprise of available-for-sale debt investments and held-to-maturity investments.

Credit quality of financial assets

The tables below show the credit quality per class of financial assets based on the Group's rating system:

Consolidated

	2017			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Investment securities				
Available-for-sale investments				
Debt securities	417,942	-	-	417,942
Held-to-maturity investments	11,593,395	-	-	11,593,395
Loans and receivables				
Loans and discounts				
Consumption and others	53,166,823	1,259,510	5,938,030	60,364,363
Commercial and business	1,591,823		36,527	1,628,350
Real estate and housing	115,981	5,644	28,779	150,404
Other receivables	877,907	5,315	111,717	994,939
Loans and advances to banks and others				
Cash and cash equivalents (excluding cash on hand)	8,252,596	-	-	8,252,596
	76,016,467	1,270,469	6,115,053	83,401,989
Less:				
Unearned discount	1,311	-	-	1,311
Allowance for credit and impairment losses	541,404	683,525	5,654,666	6,879,595
	75,473,752	586,944	460,387	76,521,083

	2016			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Investment securities				
Available-for-sale investments				
Debt securities	92,858	-	-	92,858
Held-to-maturity investments	8,761,067	-	-	8,761,067
Loans and receivables				
Loans and discounts				
Consumption and others	47,737,747	841,578	5,437,863	54,017,188
Commercial and business	1,230,171	3,531	35,662	1,269,364
Real estate and housing	129,267	9,521	16,525	155,313
Other receivables	872,768	11,221	143,883	1,027,872
Loans and advances to banks and others				
Cash and cash equivalents (excluding cash on hand)	12,266,173	-	-	12,266,173
	71,090,051	865,851	5,633,933	77,589,835
Less:				
Unearned discount	2,506	-	-	2,506
Allowance for credit and impairment losses	483,737	683,048	5,083,427	6,250,212
	70,603,808	182,803	550,506	71,337,117

Parent Company

	2017			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Investment securities				
Available-for-sale investments	-			
Debt securities	417,942	-	-	417,942
Held-to-maturity investments	11,593,395	-	-	11,593,395
Loans and receivables				
Loans and discounts				
Consumption and others	53,086,207	1,259,510	5,935,082	60,280,799
Commercial and business	1,591,823	-	36,527	1,628,350
Real estate and housing	115,981	5,644	28,779	150,404
Other receivables	876,989	5,315	111,717	994,021
Loans and advances to banks and others				
Cash and cash equivalents (excluding cash on hand)	8,228,369	-	-	8,228,369
	75,910,706	1,270,469	6,112,105	83,293,280
Less:				
Unearned discount	1,311	-	-	1,311
Allowance for credit and impairment Losses	541,404	683,525	5,650,458	6,875,387
	75,367,991	586,944	461,647	76,416,582

	2016			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Investment securities				
Available-for-sale investments				
Debt securities	92,858	-	-	92,858
Held-to-maturity investments	8,761,067	-	-	8,761,067
Loans and receivables				
Loans and discounts				
Consumption and others	47,649,793	841,578	5,430,498	53,921,869
Commercial and business	1,230,171	3,531	35,662	1,269,364
Real estate and housing	129,267	9,521	16,525	155,313
Other receivables	872,015	10,684	120,463	1,003,162
Loans and advances to banks and others				
Cash and cash equivalents (excluding cash on hand)	12,255,288	-	-	12,255,288
	70,990,459	865,314	5,603,148	77,458,921
Less:				
Unearned discount	2,506	-	-	2,506
Allowance for credit and impairment Losses	483,482	683,048	5,052,927	6,219,457
	70,504,471	182,266	550,221	71,236,958

Allowance for credit and impairment losses for "Neither past due nor impaired" and "Past due but not impaired" buckets mainly represent collective impairment provisions as at December 31, 2017 and 2016 for prudential reporting purposes.

i. Neither past due nor impaired

(a) Loans and discounts

The credit quality of the portfolio of loans and discounts can be assessed by reference to the historical experience of the Group with the borrower. All loans and other receivables neither past due nor impaired are considered high grade and can withstand weak economic conditions. These are borrowers with strong repayment capacity, have excellent liquidity and low leverage. Mostly, these are the accounts with updated amortization payments.

The credit risk grading for loans and discounts shall be applicable for both new and existing borrowers.

The classification of loans and discount is as follows:

- Commercial and business - consists mostly of back-to-back loans wherein the loans are secured by hold-outs on deposits.

- Real estate and housing - consists of loans for acquisition of house and lot and condominium units or construction or improvement of an existing unit.

• Consumption and others - consists of salary, emergency, pension and car loans.

(b) Investment securities

The Group invests in fixed rate Treasury notes and retail Treasury bonds which are fully guaranteed by the Philippine government.

(c) Loans and advances to banks and others

The Group has savings, short-term and long-term time deposits with various financial institutions. Cash transactions are limited to financial institutions with good credit standing. The Group has policies that limit the amount of credit exposure to any financial institution. The Group's existing deposit arrangements are with universal and commercial banks, which are considered top tier banks in terms of capitalization as categorized by the BSP. Overall credit risk, if any, is not assessed to be significant.

ii. Past due but not impaired

Late processing and other administrative delays can lead to a financial asset to become past due. Therefore, loans and other receivables up to 180 days are not usually considered impaired, unless other information is available to indicate the contrary. Allowance for credit and impairment losses of past due but not impaired loans and receivables arise from collective assessment for impairment.

Reduction in amount is due to the changes in certain parameters in the system for classifying accounts to past due relating to billing gaps.

An aging analysis of past due but not impaired financial assets of the Group as at December 31 is shown below:

	2017				
	Less than 30 days	30 - 60 days	61 - 90 days	91 - 180 days	Total
Consumption and others	153,526	244,807	374,387	486,789	1,259,509
Commercial and business					
Real estate and housing	1,716	-	-	3,928	5,644
Other receivables	-	1,485	448	3,383	5,316
	155,242	246,292	374,835	494,100	1,270,469
	2016				
	Less than 30 days	30 - 60 days	61 - 90 days	91 - 180 days	Total
Consumption and others	157,306	44,573	48,788	590,910	841,577
Commercial and business	1,801	-	-	1,730	3,531
Real estate and housing	67	-	-	9,454	9,521
Other receivables	-	3,394	157	7,671	11,222
	159,174	47,967	48,945	609,765	865,851

iii. Past due and impaired loans and other receivables

Individually impaired loans are primarily due from borrowers who are deceased, in absence without official leave and/or terminated from service.

Other financial assets are due from various counterparties with good credit standing.

27.1.2 Market risk

The Group is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Treasury Department is responsible for the identification of investments that provide a relatively stable rate of return and submit these identified investments to the management of the Parent Company for approval. In addition, the Treasury Department monitors the investment portfolio performance and reports regularly to the management of the Parent Company. Considering the components of the financial assets and liabilities as at December 31, 2017 and 2016, the Group is not exposed to significant foreign exchange risk.

(a) Cash flow and fair value interest rate risk

There are two types of interest rate risk - (i) fair value interest risk and (ii) cash flow interest risk. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Parent Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its fair value risks.

The Parent Company's market risk policy requires it to manage interest rate risk by managing the maturities of interest-bearing financial assets, and monitoring the fluctuation of interest rates in the market. Interest rate risk applies only to available-for-sale debt securities amounting to P415.2 million as at December 31, 2017 (2016 - P91.6 million). The Group's loans and receivable carry fixed interest rate, thus, not exposed to changes arising from fluctuation in interest rate.

At December 31, 2017, if interest rates had been higher/lower by 100 basis points (2016 - 85 basis points) with all other variables held constant, other comprehensive income and equity of the Group and Parent Company would have been P19,132 thousand/P26,439 thousand (2016 - P3,783 thousand/ P2,267 thousand) lower/higher mainly as a result of a decrease/increase in the fair value of debt securities classified as Available-for-sale investments. The assumed interest rate shift represents the defined shift used by the Group to monitor the fair values of investments in interest-bearing debt instruments. There is no impact to the statement of income.

27.1.3 Fair value of financial assets and liabilities

The following presents the fair value of available-for-sale financial assets of the Group and the Parent Company as at December 31:

Consolidated and Parent Company

	2017	2016	Fair value hierarchy
Available-for-sale investments			
Debt securities	415,192	91,617	Level 2
Equity securities	2,672	1,977	Level 3
	417,864	93,594	

In 2017 and 2016, there were no transfers between the levels of the fair value hierarchy above.

Financial assets and liabilities not measured at fair value

The table below summarizes the carrying amount and fair value of those significant financial assets and liabilities not presented on the statements of financial position of the Group and Parent Company at fair value at December 31:

Consolidated

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Held-to-maturity investments	11,593,395	10,440,203	8,761,067	8,335,969
Loans and receivables				
Loans and discounts	55,379,628	43,222,945	49,336,619	38,534,729
Other receivables	877,522	994,895	880,400	1,027,872
	67,850,545	54,658,043	58,978,086	47,898,570

Parent Company

	2017		2016	
	Carrying Value	Fair value	Carrying value	Fair value
Financial assets				
Held-to-maturity investments	11,593,395	10,440,203	8,761,067	8,335,969
Loans and receivables				
Loans and discounts	55,300,272	43,155,013	49,248,634	38,439,410
Other receivables	876,604	994,021	879,110	1,003,161
	67,770,271	54,589,237	58,888,811	47,778,540

27.1.4 Liquidity risk

Liquidity risk is the risk that the Group 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 current obligations and to repay withdrawals from members. This can also lead to immediate sale of securities outside of its intended holding period.

To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The table below analyzes the Group and the Parent Company's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the statements of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Consolidated

	2017			2016		
	Up to 1 year	Over 1 year	Total	Up to 1 year	Over 1 year	Total
Financial assets						
Cash and cash equivalents	8,279,620	-	8,279,620	12,298,817	-	12,298,817
AFS investments	-	420,614	420,614	-	94,835	94,835
HTM investments	249,288	11,212,690	11,461,978	513,786	8,140,697	8,654,483
Loans and receivables						
Loans and discount	6,335,020	55,806,786	62,141,806	5,478,525	49,960,834	55,439,359
Other receivables	985,551	9,388	994,939	1,015,464	12,408	1,027,872
	15,849,479	67,449,478	83,298,957	19,306,592	58,208,774	77,515,366
Financial liabilities						
Deposit liabilities	16,039,124	-	16,039,124	13,784,451	-	13,784,451
Accrued expenses and other expenses	26,438	-	26,438	17,382	-	17,382
Other liabilities	2,102,856	-	2,102,856	1,778,967	-	1,778,967
	18,168,418	-	18,168,418	15,580,800	-	15,580,800

Parent Company

	2017			2016		
	Up to 1 year	Over 1 year	Total	Up to 1 year	Over 1 year	Total
Financial assets						
Cash and cash equivalents	8,255,388	-	8,255,388	12,287,927	-	12,287,927
AFS investments	-	420,614	420,614	-	94,835	94,835
HTM investments	249,288	11,212,690	11,461,978	513,786	8,140,697	8,654,483
Loans and receivables						
Loans and discount	5,519,180	56,539,062	62,058,242	5,440,086	49,903,954	55,344,040
Other receivables	984,633	9,388	994,021	990,753	12,408	1,003,161
	15,008,489	68,181,754	83,190,243	19,232,552	58,151,894	77,384,446
Financial liabilities						
Deposit liabilities	16,039,124	-	16,039,124	13,784,451	-	13,784,451
Accrued expenses and other expenses	26,438	-	26,438	17,382	-	17,382
Other liabilities	2,063,121	-	2,063,121	1,738,743	-	1,738,743
	18,128,683	-	18,128,683	15,540,576	-	15,540,576

27.2 Capital management

The Parent Company, in fulfillment of its mission, plans and monitors its capital contributions and deposits in order to fully utilize the accumulation of savings and its lending operations thus maximizing each member's value. The capital of the Group is represented by the total equity and capital contribution repayable on demand. Regular and associate members are required to maintain minimum contribution amounting to P1,000 but not to exceed P3.0 million and P1.0 million, respectively. Additional capital contributions in excess of the minimum contribution of P1,000 can be withdrawn anytime.

The core deposits are capital contributions of members whose capital contribution accounts were retained at maximum limit, as mandated per Board Resolution Nos. 2007-004-2357 and 2010-006-3575. Details are as follows:

	2017		2016	
Type of membership	Volume	Amount (In millions)	Volume	Amount (In millions)
Associate	5,622	5,622	5,640	5,640
Corporate	53	59	55	61
Regular	1,514	4,542	1,435	4,305
	7,189	10,223	7,130	10,006

Regulatory Qualifying Capital

In accordance with section 4116S of BSP Manual of Regulations for NSSLA, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth). This includes the Parent Company's capital contribution amounting to P47 billion and P45 billion as at December 31, 2017 and 2016, respectively, which is determined on the basis of regulatory accounting policies and the total equity in the statement of financial position.

In addition, the risk-based capital ratio of the Parent Company as NSSLA, expressed as a percentage of qualifying capital-to-risk assets, should not be less than ten (10%) percent. Qualifying capital and risk assets are computed based on BSP regulations. Risk assets consist of total assets less cash on hand, government securities, loans covered by hold-out or assignment of deposits and other non-risk items determined by the Monetary Board of the BSP. Combined capital consists of capital contributions repayable on demand and the equity of the Parent Company.

As of December 31, 2017 and 2016, the Parent Company's capital-to-risk assets, in compliance with BSP circular 789, follows:

	2017	2016
Total capital	62,655,842	13,252,498
Risk assets	68,047,482	61,442,271
Capital-to-risk assets ratio	92.08%	21.57%

In 2017 and 2016, the capital adequacy ratio of the Parent Company based on fixed capital is 42.59% and 13.71%, respectively.

28 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and parent financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

28.1 Basis of preparation

The consolidated and parent financial statements of the Group have been prepared in compliance with the financial reporting framework as prescribed by the BSP for NSSLAs. The said reporting framework as contained in the Manual of Regulations of BSP for Non-Bank Financial Institutions (BSP Manual of Regulations) include the Philippine Financial Reporting Standards (PFRSs), Philippine Accounting Standards (PASs) and Interpretations approved by the Financial Reporting Standards Council (FRSC) adopted by the SEC and other BSP regulations. In case of differences between BSP regulations and PFRSs, the requirement of the BSP resolution is adopted.

The consolidated and parent financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of operations of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated and parent financial statements are disclosed in Note 26.

28.2 Changes in accounting policy and disclosures

(a) Amendments to standards adopted by the Group

The following amendments to existing standards have been adopted by the *Group* effective January 1, 2017:

- *Amendments to PAS 12, 'Income taxes': Recognition of deferred tax assets for unrealized losses.* Amendments made to PAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that a temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period. An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit. Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type. Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

- *Amendments to PAS 7, 'Statement of cash flows'.* Beginning January 1, 2017, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

The adoption of the above amendments did not have a material impact on the financial statements of the Group.

(b) New standards, amendments to standards and interpretations not yet adopted

The following new accounting standards and interpretations are not mandatory for December 31, 2017 reporting period and have not been early adopted by the Group:

- *PFRS 9, Financial instruments (effective for annual periods beginning on or after January 1, 2018)*

  PFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group will apply the new rules retrospectively from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

Classification and measurement of financial assets

Investments in debt instruments

Under PFRS 9, a financial asset should be subsequently measured at amortized cost if both of the following conditions are met:

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

A financial asset should be subsequently measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

If the financial asset is measured at FVOCI, all movements in the fair value should be taken through OCI, except for the recognition of impairment gains or losses, interest revenue in line with the effective interest method and foreign exchange gains and losses, which are recognized in profit or loss.

If the financial asset does not pass the business model assessment and SPPI criteria, or the fair value option is applied, it is measured at fair value through profit or loss (FVTPL). This is the residual measurement category.

Investments in equity instruments

Under PFRS 9, investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are required to be classified at FVTPL, with dividend income recognized in profit or loss.

For all other equities within the scope of PFRS 9, the standard allows entities to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than in profit or loss (except for equities that give an investor significant influence over an investee according to PAS 28, which can only be accounted for under PFRS 9 if they are measured at FVTPL). Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of an investment, in which case they are recognized in OCI. There is no recycling of amounts from OCI to profit or loss - for example, on sale of an equity investment - nor are there any impairment requirements. The entity however, can transfer the cumulative gain or loss within equity.

The initial results of the impact assessment done by the Group, on the classification and measurement of financial assets follow:

- Majority of the investments in debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification as at FVOCI, hence, there will be no change on the accounting for these investments.
- The Group expects that held-to-maturity (HTM) securities will largely remain at amortized cost.
- Most of the AFS equity securities will likely be measured still at FVOCI following the irrevocable election available under PFRS 9.
- Financial assets classified as loans and receivables under PAS 39 will remain at amortized cost under PFRS 9.

Classification and measurement of financial liabilities

PFRS 9 will have no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The de-recognition rules have been transferred from PAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under PAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, loan commitments and certain financial guarantee contracts.

Based on the initial assessments performed to date, the Group expects that the ECL model will have a significant impact on the impairment provisioning for loans and advances.

Hedge accounting

The new hedge accounting rules under PFRS 9 will align the accounting for hedging instruments more closely with the entity's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new hedge accounting rules will not have a significant impact on the Group as there are no formal hedge accounting relationships as of December 31, 2017.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group disclosures about its financial instruments particularly in the year of the adoption of the new standard.

- *PFRS 15, Revenue from contracts with customers (effective for annual periods beginning on or after January 1, 2018)*

  PFRS 15 will replace PAS 18, 'Revenue' which covers contracts for goods and services and PAS 11, 'Construction contracts' which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognized: (1) identify contracts with customers, (2) identify the separate performance obligation, (3) determine the transaction price of the contract, (4) allocate the transaction price to each of the separate performance obligations, and (5) recognize the revenue as each performance obligation is satisfied

The adoption of PFRS 15 will not have a material impact on the financial statements of the Group.

- *PFRS 16, Leases (effective for annual periods beginning on or after January 1, 2019)*

  PFRS 16 will replace the current guidance in *PAS 17, Leases.* PFRS 16 which will become effective on January 1, 2019, will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

  The adoption of PFRS 16 will likely affect the accounting of certain assets currently held by the Group under operating lease arrangements.

- *Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after January 1, 2019)*

  It has been clarified previously that PAS 12, not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

  The adoption of the above interpretation will not have a material impact on the financial statements of the Group.

Likewise, the following amendments are not mandatory for December 31, 2017 reporting period and have not been early adopted by the Group:

- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to PFRS 15 - Clarifications to PFRS 15
- Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions

The adoption of the above amendments are not expected to have a material impact on the financial statements of the Group.

28.3 Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2017. The Subsidiary financial statements are prepared for the same reporting year as the Parent Company. The Group uses uniform accounting policies, any difference between the Subsidiary and Parent Company are adjusted properly.

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

(b) Non-controlling interests

Non-controlling interest represents the portion of the statement of income and the net assets of the Subsidiary not owned, directly or indirectly, by the Parent Company. The Group treats transactions with non-controlling interests as transactions with equity holders of the Group.

Non-controlling interests are presented separately in the consolidated statement of income and consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to members of the Parent Company.

Any losses applicable to the non-controlling interests are allocated against the non-controlling interest. Acquisitions of non-controlling interests that does not result in a loss of control are accounted for as equity transaction, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company

28.4 Investments in subsidiary

The financial statements include the consolidated and parent financial statements.

Investments in subsidiary in the parent financial statements are accounted for at equity method in accordance with BSP Manual of Regulations. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Parent Company's share of the post-acquisition profits or losses of the investee in statement of income, and the Parent Company's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from subsidiary are recognized as a reduction in the carrying amount of the investment.

The Parent Company determines at each reporting date whether there is any indicator of impairment that the investment in the subsidiary is impaired. If impaired, the Parent Company calculates the amount of impairment as the difference between the recoverable amount and carrying value and the difference is recognized in the statement of income.

Investments in subsidiary is derecognized upon disposal or when no future economic benefits are expected to be derived from the subsidiaries and associates at which time the cost and the related accumulated impairment loss are removed in the statement of financial position. Any gains and losses on disposal is determined by comparing the proceeds with the carrying amount of the investment and recognized in statement of income.

28.5 Cash and cash equivalents; Other investments

Cash and cash equivalents include cash and other cash items, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less from the date of acquisition.

Highly liquid investments that do not qualify as cash equivalents (i.e. original maturities exceeded 3 months) are classified as Other Investments in the statement of financial position.

28.6 Financial instruments

28.6.1 Classification

The Group classifies its financial assets and liabilities according to the categories described below. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

(a) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

The Group does not hold financial assets under this category.

(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.

The Group's loans and receivables comprise of Cash and cash equivalents, Loans and receivables, and security deposits included in Other assets in the statement of financial position.

(iii) Held-to-maturity investments

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months from the reporting date.

(b) Financial liabilities

The Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value); and financial liabilities at amortized cost.

(i) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

The Group does not hold financial liabilities under this category.

(ii) Other liabilities at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost.

The Group's capital contribution repayable on demand, deposit liabilities, accrued interest and other expenses and other liabilities are classified under this category.

28.6.2 Recognition and measurement

(a) Initial recognition and measurement

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Group commits to purchase or sell the asset. Financial assets and liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are recognized as expense in profit or loss.

(b) Subsequent measurement

Available for-sale financial assets and financial assets and liabilities at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Financial liabilities are initially recognized at fair value of the consideration received less directly attributable transaction costs. Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Other financial liabilities are measured at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of available-for-sale securities are recognized directly in other comprehensive income as net change in unrealized gain (loss) on available-for-sale investments, until the available-for-sale financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in statement of income. However, interest income calculated on these securities using the effective interest method is recognized in the statement of income. Dividends on equity instruments are recognized in the statement of income when the Group's right to receive payment is established.

28.6.3 Impairment of financial assets

(a) Assets carried at amortized cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in contractual payments of principal or interest;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- Deterioration in the value of collateral;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including adverse changes in the payments status of borrowers in the portfolio, and national or local economic conditions that correlate with defaults on the assets in the portfolio.

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant of not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses those for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The estimated future cash flows are discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. Financial assets at amortized cost, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is credited to provision for credit and impairment losses in the statement of income and the allowance account is reduced. If a write-off is later recovered, any amounts formerly charged are credited to recovery on charged-off assets presented under miscellaneous income in the statement of income.

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

Loans that are either subject to individual or collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

(b) Assets classified as available-for-sale

For available-for-sale debt securities, the Group uses the criteria referred to above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. Generally, the Group treats 20% or more as 'significant' and greater than twelve months as 'prolonged'. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

28.6.4 Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. If risks and rewards have not been substantially transferred, the Group performs tests of control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition.

Financial liabilities are derecognized when extinguished, i.e., when the obligation is discharged or is cancelled or expires.

28.6.5 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

There are no financial assets or liabilities that are stated at net amounts as result of offsetting.

28.7 Classes of financial instruments

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

	Categories (as defined by PAS 39)	Classes (as determined by the Bank)		
		Main classes	Sub-classes	
Financial assets	Loans and receivables	- Cash and cash equivalents		
		- Loans and receivables	- Loans and discounts	- Consumption and others - Commercial and business - Real estate and housing
			- Other receivables	- Accounts receivable - Accrued interest receivable - Sales contract receivable - Installment sales receivable - Due from contractors and suppliers - Advances and receivables from officers and employees
		- Other assets	- Security deposits	
	Held-to-maturity investments	- Investment securities (debt securities)	- Government	
		- Other investments		
	Available-for-sale financial assets	- Investment securities (debt securities)	- Government - Others	
		- Investment securities (equity securities)	- Quoted - Unquoted	
Financial liabilities	Financial liabilities at amortized cost	- Capital contribution repayable on demand		
		- Deposits liabilities		
		- Accrued interest and other expenses		
		- Others liabilities	- Accounts payable - Insurance payable - Others	

28.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and amortization, and any impairment loss. Land is stated as cost less any allowance for impairment.

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives (in years), as follows:

	Useful life
Buildings, condominiums and improvements	20 year
Furniture, fixtures and equipment	3 to 10 years
Leasehold improvements	5 year or lease term, whichever is shorter

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

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 in accordance with the policy described in Note 28.11.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and their related accumulated depreciation are removed from the accounts. Gains and losses on disposal are determined by comparing proceeds with carrying amount and are recognized as profit from assets sold under miscellaneous income in the statement of income.

28.9 Investment properties

Properties that are held either to earn rental income or for capital appreciation or for both and that are not significantly occupied by the Group are classified as investment properties. Foreclosed properties are classified under Investment properties at the time of foreclosure.

Investment property is initially recorded at cost and subsequently accounted for using the cost model.

Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) Commencement of development with a view of sale, for a transfer from investment property to real properties held-for-sale and development;
(c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
(d) Commencement of an operating lease to another party, for a transfer from real properties held-for-sale and development to investment property.

Investment properties comprise land and building. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and allowance for impairment losses. Depreciation and amortization of investment property is computed using the straight-line method over its useful life, regardless of utilization. The estimated useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful life of buildings and improvements classified as investment properties is 10 years.

Non-financial assets are reviewed for impairment using the policy described in Note 28.11.

An item of investment property is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on derecognition of the asset is included in statement of income in the period the item is derecognized.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in statement of income.

28.10 Software costs

Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over five (5) years.

Costs associated with maintaining software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

28.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill, for which an impairment loss has been recognized, are reviewed for possible reversal of impairment at each reporting date.

28.12 Members contribution

Members' contributions are considered puttable instruments which are classified as equity as it contains the following features:

- It entitles the holder to a pro rata share of the Parent Company's net assets in the event of the Parent Company's liquidation. The Parent Company's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by dividing the Parent Company's net assets on liquidation into units of equal amounts and multiplying that amount by the number of the units held by the financial instrument holder.

- The members' contributions are subordinate to all other classes of instruments because it has no priority over other claims to the assets of the entity on liquidation and does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.

- All members' contributions have identical features.

- Apart from the contractual obligation for the Parent Company redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity, and it is not a contract that will or might be settled in the Parent Company's own equity instruments.

- The total expected cash flows attributable to the members' contribution over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets, or the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

In addition to the above features, the Parent Company have no other financial instrument or contract that has total cash flows based substantially on the profit or loss, the change in the recognized net assets, or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of such instrument or contract) and has the effect of substantially restricting or fixing the residual return to the members of the Parent Company.

28.13 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Group classifies its fair value measurements using fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible. The Group has no assets or liabilities classified under Level 3 as at December 31, 2017 and 2016.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

(a) Financial instruments

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from Bloomberg.

A financial instrument is regarded as quoted in an active market 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. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as financial liabilities are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

(b) Non-financial assets or liabilities

The Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

The fair values of the Group's investment properties fall under level 2 of the fair value hierarchy (Note 8). The Group has no other non-financial assets or liabilities measured at fair value or for which fair value is disclosed as at December 31, 2017 and 2016.

28.14 Deposit liabilities

Deposit liabilities are cash deposits from members of the Parent Company which are repayable on demand. Deposit liabilities are initially measured at fair value plus transaction costs, and subsequently measured at amortized cost using the effective interest method.

28.15 Accrued interest and other expenses and Other liabilities

Accrued interest and other expenses and Other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established.

28.16 Revenue and expense recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognized.

(a) Interest income and expense

Interest income and expense are recognized in the statement of income for all interest-bearing financial instruments 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 Group 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

Unearned discount is recognized as income over the terms of the receivables using the effective interest method and shown as deduction from loans.

(b) Loan fees, service charges and penalties

Loan fees that are directly related to the acquisition and origination of loans are included in the cost of receivable and are amortized using the effective interest method over the term of the loan.
Service charges and other fees are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability. Service fees and charges pertain to dormancy charges, pre-termination fees and ID renewals.

(c) Dividend income

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

(d) Rental income

Rental income from investment properties is recognized on a straight-line basis over the lease term.

(e) Other income

Other income is recognized when earned.

(f) Expenses

Expenses are recognized as incurred.

28.17 Income taxes (for income not covered by R.A. 8367)

The tax expense for the period comprises current and deferred tax. Tax is recognized in statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

Deferred income tax is provided on temporary differences arising on investments in subsidiary, except to the extent that the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

28.18 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

28.19 Employee benefits

(a) Pension obligations

The Parent Company and Subsidiary maintains separate defined benefit plans. The Parent Company has a funded noncontributory defined benefit plan while the Subsidiary has an unfunded noncontributory defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statements of financial position in respect of defined benefit retirement plans 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 interest rates of high-quality corporate bonds 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 retirement obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

28.20 Dividends

Dividends are recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Board of Trustees of the Parent Company.

28.21 Leases

Group as lessee

Leases where the lessor retains substantially all the risks and rewards of ownership of the related asset are classified as operating leases. Fixed lease payments are recognized as rent expense on a straight-line basis over the lease term.

Group as lessor

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in statement of income in the statements of total comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income.

28.22 Foreign currency transactions and translation

(a) Functional and presentation currency

Items included in the financial statements of each entity within the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange 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 statement of income.

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

28.24 Reclassification

Certain amounts have been reclassified in the statement of comprehensive income in the prior year to conform to the current year's presentation of provision for credit and impairment losses and miscellaneous income and expenses.

28.25 Subsequent events (or Events after the reporting date)

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

29 Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by Revenue Regulations No. 15-2010 that is relevant to the Parent Company. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) *Output value-added tax (VAT)*

The Parent Company is a non-VAT registered company engaged in the business of general financing and investing business.

(ii) Documentary stamp tax (DST)

DST on loan releases are shouldered by customers, hence, the Parent Company does not incur any expense arising from its transactions.

(iii) All other local and national taxes

All other local and national taxes for the years ended December 31, 2017 consist of:

	Amount
Real estate tax	3,163,291
Final tax on raffle prizes	3,143,901
Business tax	912,578
Fringe benefit tax	596,844
Donors tax	126,409
Documentary stamp tax	91,515
Community tax	20,758
Others	238,611
	8,293,907

(iv) Withholding taxes

Withholding taxes paid and accrued/withheld for the years ended December 31, 2017consist of:

	Paid	Accrued	Total
Withholding tax on compensation	128,403	15,565	143,968
Expanded withholding taxes	25,468	2,651	28,119
Final withholding taxes	2,487	657	3,144
	156,358	18,873	175,231

At December 31, 2017, the Parent Company has no creditable withholding taxes.

(v) Tax assessment

There is no pending tax assessment as at December 31, 2017.

The Parent Company's open taxable years are 2014, 2015, and 2016.

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2017 AFPSLAI ANNUAL REPORT

The financial information in this report is for the period ended December 31, 2017, approved by the Bureau of Internal Revenue on April 30, 2018, and filed with Securities and Exchange Commission on May 15, 2018. Members may access a complete copy of the 2017 Annual Report at www.afpslai.com.ph. Members may also request a CD copy by calling (02) 911.8364 or writing to Corporate Affairs Division, 3/F AFPSLAI Head Office, Capinpin Avenue, Camp General Emilio Aguinaldo, EDSA cor. Col. Bonny Serrano Road, Quezon City, Philippines 1110.

The information in this report is as of December 31, 2017 unless otherwise indicated.

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