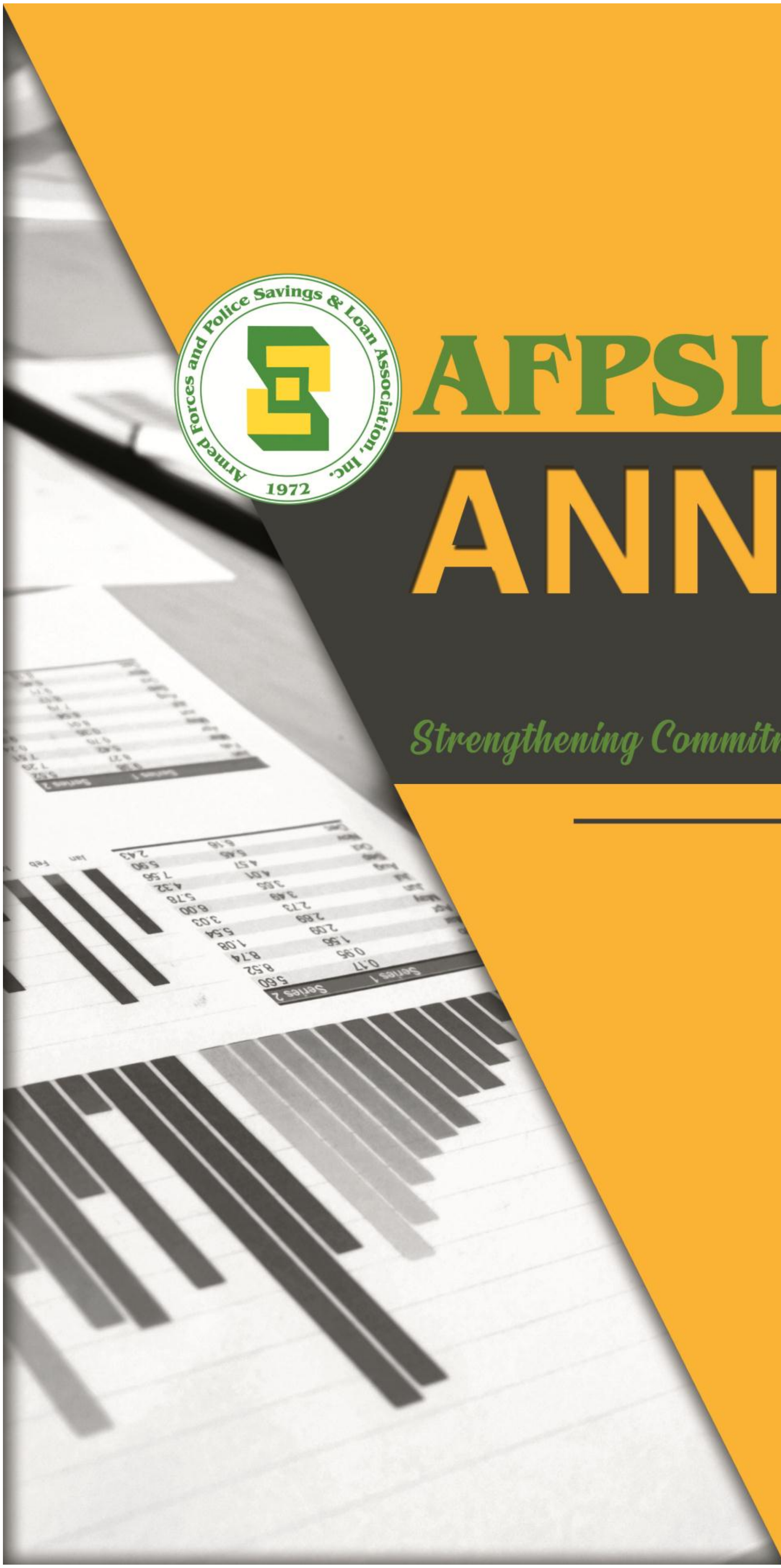
Armed Forces and Police Savings & Loan Association, Inc.
1972

# AFPSLAI ANNUAL REPORT

*Strengthening Commitment to Quality Growth*



2018

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# CORPORATE PHILOSOPHY

## OUR VISION

By 2022, AFPSLAI is the leader in the financial services industry,
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

We are here to improve the quality of life of our members
by providing excellent and relevant financial products and related services.

## OUR VALUES

Malasakit sa mga miyembro, sa kumpanya, at sa bansa
Good Governance
Professionalism
Teamwork

# PRODUCTS AND SERVICES

## DEPOSITS

- Capital Contribution Account
- Savings Deposit Account
- Savings Deposit Remittance Account
- Special Savings Account
- Pension Account

## LOANS

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

## SPECIAL SERVICES

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


28
29
30
250TH
PRESIDENTIAL AIRLIFT WING
JUN PERRY S MAGNO
1LT
PAF

# MESSAGE OF THE CHAIRMEN

We welcomed 2018 with a clear vision of solidifying our position in the market while working towards enriching customer experience across all platforms. On behalf of the Board of Trustees, I am pleased to present to you the 2018 Annual Report of the Armed Forces and Police Savings & Loan Association, Inc. (AFPSLAI).

Our growth for the year has been fueled by innovation to achieve maximum profitability and value-added customer service. Year 2018 started with the expansion and improvement of our existing product lines. As our expression of gratitude, we also launched several promotional campaigns for our loyal borrowers.

Not neglecting our member-depositors who are just as important in the operations of AFPSLAI, we launched two (2) additional saving facilities for our depositors, namely: the Savings Deposit Remittance Account (SD-016) for those in active services and the Special Savings Account (SD-05) intended for those members who have already maximized their capital contribution limits. We hope that our members will take advantage of these avenues for them to increase their savings.

Our aggressive marketing campaigns, prudent spending and efficient billing and collection efforts allowed us to attain a Net Income of Php 9.60B for the year, and subsequently grant a 17.0% annual dividend rate. Likewise, we were able to set aside funds for Corporate Social Responsibility (CSR) Projects and distribute Php 300M loan rebates to borrowers with updated payments in 2017.

Recognizing the importance of technological innovation in the delivery of our products and services, our team, together with Consolsys, worked tirelessly to have our new core banking system, AFPSLAI Voyager, ready for implementation at the start of 2019. Along with this IT project, we also improved our service channels with the relocation of some regional offices for better accessibility, inauguration of new extension offices and the renovation of our Head Office Building for greater ease and comfort for our members.

While we took great strides to achieve profitable growth through superior customer service and innovation, we remained faithful in our commitment to socio-civic activities that benefitted our members and member-dependents. Through our Outreach Program, Scholarship & Educational Assistance Program, Financial Literacy Program and Donations Program, we were able to reach out to thousands of our members, their dependents and even the communities they represent.

Our success may be well validated by the awards conferred to us by the Association of Non-Stock Savings and Loan Institutions, Inc (ANSLI) during the 27th ANSLI Convention. AFPSLAI was honored with SLAI of the Year Award for 2017. Added to that, AFPSLAI also received the Award of Excellence in Profitability & Growth; Award of Excellence in Debt Utilization & Stability; Award of Merit in Loans & Discount Efficiency; and the Gawad ANSLI Award for Meaningful CSR initiatives.

For AFPSLAI, success not only means excellence in our performance and gathering our laurels as the leading financial institution. More than that, our success is manifested by our ability to make meaningful contributions to the community that we serve and our country.

I wish to convey my sincerest thanks to the management and employees for the immense amount of work they have done and the positive changes implemented in 2018. The results we have achieved are a testament to your dedication and hard work. Further, I would like to thank my fellow trustees for their guidance in helping position AFPSLAI for long-term growth. To our members, thank you for your continuing confidence in AFPSLAI. It was indeed a privilege to serve you.

Maraming salamat at Mabuhay ang AFPSLAI!

**GEN CARLITO G GALVEZ JR AFP (RET)**
AFPSLAI Chairman of the Board of Trustees
(April 18, 2018 to December 11, 2018)

# MESSAGE OF THE CHAIRMEN


**B**y all accounts, 2018 has been an exceptional year for AFPSLAI. We have gone a long way in establishing our credibility in the industry and our sustainability throughout the years.

The unrelenting efforts of AFPSLAI's former and present leaders to enhance our loan products and services and the substantial expansion in lending operations have recorded an increase in total membership and led us to regain our dominant spot among Financial Institutions. Amidst these positive operational results, we continue to have a robust growth on our financial operations. Our careful financial planning and prudent management have resulted to a significant increase in net income thereby prompting us to declare higher dividends for our members. And the substantial increase of our total assets registered the highest growth for the last five years.

While we understand the need for advancement in profitability and financial health, AFPSLAI has remained committed in providing other services through its corporate social responsibility programs that benefitted our members, their dependents as well as the various units that we serve nationwide.

I am also glad to note that the immense amount of work and our collective effort to continuously solidify our stance as a dependable, successful, and reputable financial institution have paid off and have been well-validated by the numerous awards and recognitions conferred on us in 2018.

Nevertheless, in spite of these remarkable accomplishments, the Board along with the Management, will make sure that we will never rest on these achievements. We will continue to innovate ways in order to maintain the established momentum in delivering effective services, sound fiscal position, and good governance to champion organizational efficiency and responsiveness.

As the new Chairman of the Board of Trustees, let me further assure everyone that the Board is sincerely taking on its role in overseeing the strategic directions of our institution and arriving at decisions with due diligence, honesty, and fairness for the common good of our members and stakeholders as a whole. We remain fully on track with our mandate to carry-out effective governance by constantly reviewing our plans and policies as well as our internal processes. We definitely recognize our duty to ensure fair and equitable distribution of benefits among the stakeholders of the organization. We shall stand to protect the members' benefits and rights, which include among others, the privilege of borrowers to avail loan at lower interest rates, higher dividends and returns for our depositors and investors, and reasonable salary and incentive programs for AFPSLAI employees.

I would also like to acknowledge and thank the members of the Board, the Management and staff for their outstanding commitment and unwavering dedication that made year 2018 a truly milestone year for AFPSLAI. Still, I encourage the workforce to keep up the hard work and the impressive performance which shall continuously contribute to our Association's sustained growth.

Finally, I would like to thank our members for their continued trust and patronage that inspires all of us in the Board and the Management to build further on AFPSLAI's long-standing progress and strive harder to underpin its strength.

*Bilang puno ng AFPSLAI Board of Trustees at ng kalupunan ng Sandatahang Lakas ng Pilipinas, asahan ninyo ang aking walang humpay na suporta sa ating asosasyon at sa lahat ng ating mga miyembro. Maraming salamat at mabuhay ang AFPSLAI!*

**GEN BENJAMIN R MADRIGAL JR AFP**
AFPSLAI Chairman of the Board of Trustees
(December 11, 2018 to present)

# REPORT OF THE PRESIDENT & CEO

We, at the Armed Forces and Police Savings and Loan Association, Incorporated (AFPSLAI), have always created and worked on enabling opportunities to improve the quality of life of our members in the uniformed service. We developed our brand promise of valuing our members' trust based on this. We shall continue to reinvent existing business models and structures that have worked to our advantage, innovate based on new trends and market demands, and reinvigorate and realign our commitment along this line.

We ended the year 2018 with a remarkably strong performance as we exceeded financial targets set for the year. In addition, our market share, which we consider a good indicator of our market performance, made a turnaround in one of our biggest markets during the last quarter of the year. All these accomplishments are keeping us in high spirits knowing that we have the capability to maneuver amidst high competition and regulatory restraints. This manifested organizational strength remains our most valued asset as we pursue our vision of market leadership.

We are confident that we can deliver even better results as we bank on the strategic plan initiated in 2016 to give us the head start. We have aligned our resources on initiatives that would bring us closer to our goal of unwrapping opportunities for our members. We will keep moving towards that direction and make those strides with a clear purpose in mind, which is to make better the lives of our members. This shift to a customer-centric business framework will keep us ahead of competition. We expect repeat business from loyal customers and new business from fresh and untapped markets. This strategy will drive us towards attaining our financial targets and strengthen our capability to satisfy the expectations of all our stakeholders.

The past years had been witness of how we strived to reinforce our internal capability thru high quality growth. We are now reaping the results of our hard work. And I am proud to note, that these accomplishments have placed us in a better position to respond to members' needs and foster an enduring partnership with our members.

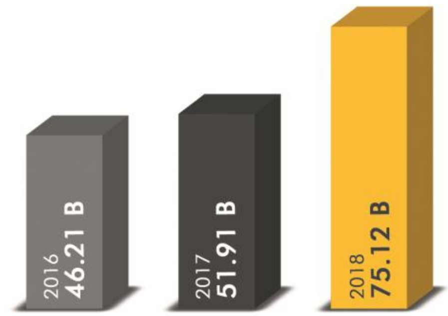
## FINANCIAL HIGHLIGHTS

We have significantly grown our core business in 2018. Our **loan production** reached **Php 75.12B** and hit an all-time high growth of 45% since 2000. This also surpassed the annual target by Php 20.07B or a noteworthy attainment of 136%. The sustained upward trajectory is largely attributed to the rise in new loans that supported the increase in loan portfolio. Loan volume also grew by 34% with 262,572 borrowers, wherein 69% is comprised of new loans. With this significant development, we will continue and step up current efforts as we push for growth from new and untapped markets.

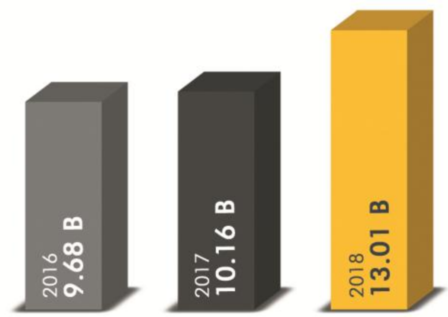
With the surge in loans, we closed the year with a **Gross Income** of **Php 13.01B**. This is 20% higher than the target or up by 28% from 2017, notably the highest in a 5-year period. Income from Consumption Loans has primarily driven the increase for the year. Expenses were kept at a prudential level, as **Total Expenses** of **Php 3.41B** is slightly lower than the approved budget of Php 3.42B (inclusive of the Supplemental Budget and Reserve for Contingency). Thus, we were able to generate a **Net Income** of **Php 9.60B**, surpassing that of last year's record as the highest in a 5-year span. This is also higher by 28% than the previous year, and from the year's target by 29%, both considered as historical highs. With this, we were able to grant a dividend rate of 17.0% for the year 2018, making it also the highest for the past 5 years. From 2018 net earnings, we were also able to set aside funds for rebates amounting to Php 1B that will be distributed this coming June 2019. This is our way of rewarding our borrowers for their significant contribution in 2018. In 2018, we have also released Php 300M-worth of rebates from our 2017 income.

**Total Assets** closed at a new high of **Php 96.00B** as it grew by Php 14.50B or 18% from end 2017 level. Composition of the Association's asset base is as follows: Loans - 85.3%; Liquid Assets - 8.8%; Other Assets - 5.6%; and Fixed Assets - 0.3%. The share of liquid assets slid down with the expansion in loan portfolio as a result of the high demand for loans especially during the first half of 2018.

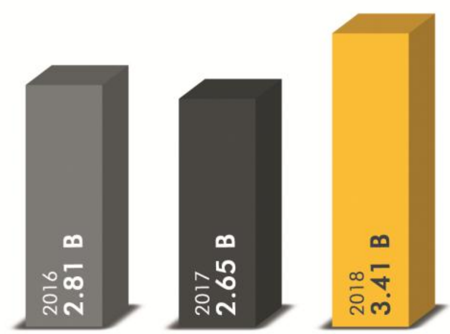
**LOAN PRODUCTION**



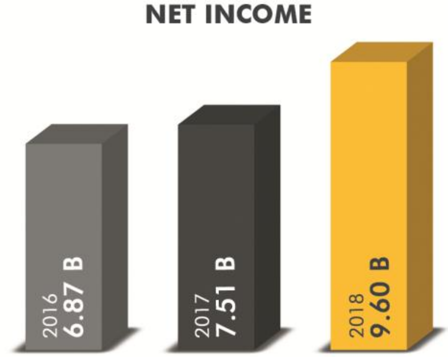

**GROSS INCOME**



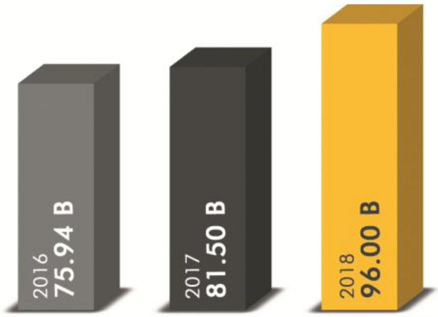

**TOTAL EXPENSES**



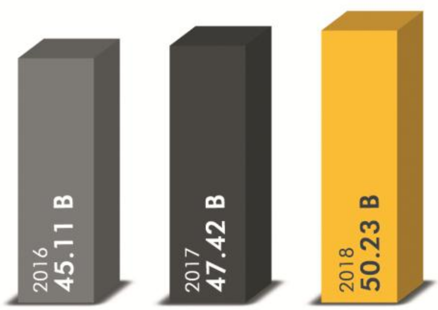

**NET INCOME**



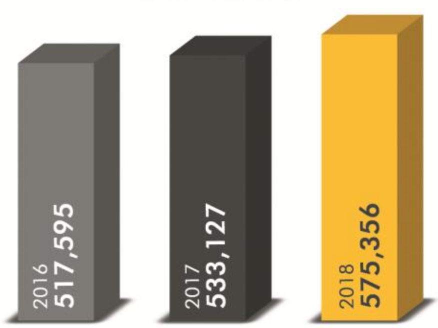
**TOTAL ASSETS**




**CAPITAL CONTRIBUTION**




**MEMBERSHIP**




**Capital Contribution** settled at a comfortable growth of 6% as it ended the year with a balance of **Php 50.23B**. Growth was kept within the expected range with the control made on CC inflows starting Q1 2017 to lessen dependence on high cost funds. Thus, when we had to source funds to support the unusually high demand for loans in 2018, we opted to tap available credit lines with banks as a cheaper fund source to cover the fund requirement. With this, proportion held by CC diminished to 66% along with Deposit Liabilities at 25%, as bank loans comprised 9% of our Total Resources.

## OPERATIONAL HIGHLIGHTS

Along with our brand promise is the commitment to raise the bar and emerge better than the previous year. We continue to benchmark not on what the others are doing, but on what our members expect from us. Our efforts during the year manifest this desire to keep the brand that has defined us throughout the years; and earn our members' trust that the value of our business is to open and lead them to opportunities that improve their financial well-being.

### On Member Perspective

Initiatives under this perspective are focused on ensuring market preference. This involves operating a tactical maneuver to attract and retain markets.

As of end 2018, our **membership** grew by 8% or a net addition of 42,229 bringing the total to **575,356**, which was achieved thru aggressive marketing/recruitment drives. We have also been successful in generating fresh loans from new members. Our member-to-borrower conversion ratio improved to 51% with the number of new borrowers now more than twice the volume of the previous year. The enhancements in our various loan products early on in 2018, like the lowering of Vehicle Loan rates, re-pricing of Real Estate Loan, and reduction of Back-to-Back Loan rate, all contributed in the upsurge. We expect another wave of loan surge in 2019 as we implemented last January the reduction in interest rates of our consumption loans (salary/pension/multi-purpose loan and emergency loan) making these the lowest in the market. We also launched a new product last December, the Pre-Owned Vehicle Loan, for members who are keen on acquiring second-hand vehicles.

We also introduced new investment schemes for our members. One is the salary deduction Savings Deposit Remittance Account, where regular monthly remittances can be made from salary or pension, to earn 5% per annum, higher than the regular SD account rate of 3%. Another offering, but which is only up to June 2019, is the Special Savings Account which is similar to a time deposit with a lock-in period of 6 to 12 months and with rates ranging from 5.5% to 7.0% per annum. Both were implemented in October 2018.


## On Internal Process and Infrastructure

As a driver of growth, we also made significant leaps in upscaling our internal processes and infrastructure to improve operational efficiency as well as compliance and control.

The implementation of the AFPSLAI Voyager at the start of 2019 as the new version of our mission critical system is so far the most significant milestone under infrastructure improvements. This has replaced the IMCS2 and is expected to provide seamless integration of business processes that would translate to improved service efficiency at the frontline. Parallel to the system upgrade is our continuing effort to improve network connectivity to ensure that member transactions are carried out in every branch or extension office. We also made progress in our cash payout program for withdrawals and loan disbursements as 19 out of the 21 branch offices now use the UCPB "U-Remit" and RCBC's "Insta-Credit" thru accredited banks and pay-out centers.


As part of our growth map, we also revisited our distribution strategy to ensure that existing channels remain relevant and effective service touch points. Since 2016, the relocation and improvements of our branch and extension offices have been carried out along this direction. In 2018, we have completed the renovation of office spaces at the Head Office and Aguinaldo Branch, and extension offices in Zamboanga, Lipa, Calapan, and Villamor Air Base; while the construction of new office space for Lucena Branch outside the camp is still ongoing but will be operational soon.

Compliance and adherence to control and good governance practices are also continuously being undertaken under a risk mitigation framework. In 2018, we completed the IT Risk Assessment conducted by Pricewaterhousecoopers (PWC) which became the basis in developing the IT Risk Management Plan. Likewise, we implemented compliance policies such as the AFPSLAI Compliance Program to conform with best practices and standards established by the Basel Committee on banking supervision; the AFPSLAI Privacy Manual in accordance with the Data


Privacy Act; and implementing guidelines on the cleansing of membership outside the BSP-mandated well-defined group.

### On Organizational Development

Human resource development shall continue to be a top priority as we endeavor to develop an engaging and member-oriented workforce. Along this line, organizational development and employee engagement initiatives were undertaken in 2018 focusing on customer service (e.g. Service Mileage Program, Complaints Management, and Consumer Protection) and other training programs aimed at improving employee competencies.

### On Corporate Social Responsibility

Creating a positive impact in the society has always been at the core of AFPSLAI's CSR Program. Social responsibility and "Malasakit" as a core value are ingrained in our culture. Thus, we have continued to demonstrate corporate citizenship and proactively responded to the needs of our members thru an extensive CSR Program.

- **Corporate Giving** – comprised of donations in the amount of Php 25.09M given in kind to partner institutions, notable of which are as follows:
  - » Various vehicles comprised of six (6) units multi-cab given to the VMMC, Fire National Training Institute, RTC8-Tacloban City, Eastern Mindanao Command and WESCOM; two (2) units ambulance to 9th ID, PA and Camp Aquino Hospital Health Service in Tarlac City; one (1) unit Toyota Innova for the BFP; two (2) units Toyota Hi-Ace for CIDG and one (1) unit for PA Recruitment Office; one (1) unit electric vehicle (14-seater) for the Phil Military Academy; and one (1) motorcycle unit to FCPA, CMFDC in Upi, Gamu, Isabela;
  - » Various computers/IT/office equipment and appliance/furniture to the different AFP/PNP units;
  - » Dental chairs to the BFP-NCR Dental Service and ASCOM-PA, Fort Bonifacio;
  - » Reflectorized traffic vest to the PNP Highway Patrol Group; and
  - » Various gym equipment to the Department of National Defense (DND) and musical instruments for PRO7, Cebu City and PMC-Naval Station, Zamboanga City.

- **Outreach Program** – To encourage socially conscious and active employees, we implemented community outreach and service-learning programs that address the needs of our members and their communities. These activities included medical missions, health and wellness programs, and gift-giving activities.

- **Scholarship Program** – This enables deserving intellectually capable dependents of regular members in need of financial assistance in realizing their dreams to pursue baccalaureate or vocational courses. For school year 2018-2019, we have accepted 65 new scholars to complete the 115 slots for baccalaureate courses. Since 2002, the program has produced 250 graduates, including the 24 scholar graduates in 2018.

- **Financial Literacy and Livelihood Programs** – These programs came about as part of our effort to build a solid financial foundation for our members thru trainings and livelihood programs. In this regard, a series of financial literacy seminars were conducted in Camp Crame, PNPA-Silang, Cavite and eight (8) other cities (Naga, Zamboanga, Davao, Iligan, Cagayan de Oro, Taguig, Butuan, and Tacloban). Similarly, AFPSLAI commenced the conduct of the business start-up seminar last December, which has been carried over in 2019. The program encourages members to start doing business based on their skill sets.

- **ALMS Program** – A total of Php 49.65M in the form of death assistance was provided to the survivors of deceased members.

## **LOOKING FORWARD:** Our Expectations

Underlying our success story in 2018 is our strong commitment to deliver high-quality results to our members. This is how we value our members' trust. Thus, we will continue to strengthen the solid fundamentals we have built and leverage on these to propel us to greater heights. We cannot be complacent. We operate in a business environment where the aggressive and risk takers advance in the race. We have to keep up by improving internally based on a clear knowledge of what our members want, and of what they actually need to help them unleash their maximum potential.

We make that bold step forward by taking a re-assessment of the progress we have made so far in our strategic plan. The Corporate Retreat held last August allowed us to recalibrate high-level goals and targets and re-align these with the strategic shifts we have to pursue to


bring us closer to our vision. Thus for 2019, we identified the following operational drivers:

- Develop an expansive CSR Program meant to make our market presence not only visible but also relevant as we continue to make significant contributions to the undertakings of our members and the institutions they belong.

- Attain profitability and sustainability by improving competitiveness by being the lowest in terms of pricing position; appropriate fund management; efficient loan portfolio management; and proper resource planning and control.

- Capture market preference by improving on operational effectiveness that hinges on a more aggressive and directed approach of generating members and borrowers and in improving our capability to identify market preference in terms of products and services.

- Attain operational efficiency thru streamlined processes and improved service infrastructures and strong adherence to good governance standards. This would mean reassessing the location and capability of our distribution channels and in investing on appropriate IT solutions and other physical infrastructures geared towards giving our members that desired customer experience. We will also strengthen our capability to arrest business risks as we install an effective internal control, compliance, and enterprise-wide risk management system.

- Develop a functional and responsive organization that is anchored on a culture that nurtures excellence and professionalism thru initiatives aimed at strengthening development and succession management. We have lined up the conduct of an organizational review this year to realign functions and positions consistent with the new system to bring about a functional and responsive organization.

I would like to believe that we are on the right track towards our mission and vision. The latest award we received from the Alliance of Non-Stock Savings and Loan Institutions (ANSLI) as the "SLAI of the Year" is a proof of this. To be accorded such an honor for two consecutive years for our performances in 2017 and 2018, affirms the transforming value we create thru our brand and the consistent approach thru which we retain our members' trust.

We expect the credit environment to be as robust as the previous year. But we have prepared ahead by ensuring that our product offerings and the required service platforms meet market expectations. The lowering of our consumption loan rates and the implementation of the AFPSLAI Voyager at the start of the year 2019 are all geared towards taking advantage of market developments.

We continue to be challenged by the operating environment. But we remain firm knowing that we have the full trust and confidence of our members. And we continue to move forward fully supported by the AFPSLAI employees, management team, and Board of Trustees who have untiringly committed themselves to bring AFPSLAI to where it is now. I sincerely thank all of you for taking the stride with me. It has been a challenging but rewarding experience for me as your President & CEO.

**MGEN EMERALDO C MAGNAYE AFP (RET)**
AFPSLAI President & CEO

# CONSUMER PROTECTION

We ensure that members' interests and rights are protected.

AFPSLAI is committed to protecting the interests and rights of its members, and promoting the cause of fair conduct of business. AFPSLAI's customer protection initiatives for 2018 are discussed below:

## DISCLOSURE AND TRANSPARENCY


AFPSLAI used a variety of communication channels (print materials, e-mail and website) to keep members abreast of major policy changes, new promos, and product updates. Useful guides were also published in the newsletter to protect members against fraud and identity theft.

AFPSLAI also provided its members with the necessary documents (i.e. disclosure statements, passbook, certificates, and official receipts) as proof of their transactions, immediately after their transaction has been completed.

## PROTECTION OF CLIENT INFORMATION

AFPSLAI's Data Privacy Manual was approved by the Board in April 2018, which incorporates measures and procedures that guarantee the safety and security of personal data, in compliance with Republic Act No. 10173 or the Data Privacy Act of 2012 (DPA), its Implementing Rules and Regulations, and other relevant policies, including issuances of the National Privacy Commission (NPC). AFPSLAI's Compliance Officer is the designated Data Protection Officer of the company.

Loan/membership application forms and deposit/withdrawal forms were revised to incorporate AFPSLAI's data privacy notice as required by law. Data privacy notice was also posted in the AFPSLAI website and in AFPSLAI bulletin boards.

New employees were given the Basic Orientation Program where the Consumer Protection Framework was discussed, along with Data Privacy Act and Theft Prevention. New employees were also asked to sign an agreement to follow the Association's confidentiality and security standards in handling customer information.

## FAIR TREATMENT

AFPSLAI offers to its members a wide range of products that would meet their specific needs. Credit analysis was done prior to approval of loan applications to manage credit risks and prevent over indebtedness of the members.

## MEMBER RECOURSE

As an institution that is committed to providing excellent customer experience, AFPSLAI has provided a mechanism whereby members can bring their concerns and complaints to management. Each complaint is viewed as an opportunity to identify the root cause and improve processes. For the year 2018, the bulk of the concerns received and handled pertained to queuing on loan and deposit/ withdrawal transactions, loan condonation and improvement of facilities. Eighty-seven percent (87%) of the concerns were classified as simple complaints. Majority of them were received through the suggestion boxes located in all branch offices. Proper coordination was made between branches and business units to ensure prompt resolution of the concerns.

Snapshot survey forms were also made available to members who wish to give feedback on the quality of service they received during their transaction at the branch offices. Of the 728 respondents for the year, the Association received a 54% *Satisfactory* rating and 34% *Highly Satisfactory* rating in terms of Overall Quality of Customer Service.

# FINANCIAL EDUCATION

For 2018, AFPSLAI continued the conduct of Personal Finance Management as part of the Association's Financial Literacy Program. For the year, a total of ten (10) seminars were conducted, nine (9) of which were facilitated by Mr Francis J Kong (a well-known speaker and financial expert), while one (1) seminar was facilitated by invited speakers from Manulife, Mr Anthony Perez and Mr Francis Lontac. AFPSLAI also sponsored a Pre-Retirement Seminar as requested by PNP Retirement and Benefit Administration Service (PRBS).

Details of the seminars are as follows:

| BRANCH | PLACE | DATE | NO. OF ATTENDEES |
|---|---|---|---|
| CRAME (PRBS) | Camp Crame | May 17, 2018 | 118 |
| SANGLEY | PNPA - Silang, Cavite | June 11, 2018 | 219 |
| LEGAZPI | Naga City | July 4, 2018 | 191 |
| ZAMBOANGA | Zamboanga City | July 27, 2018 | 213 |
| DAVAO | Davao City | August 9, 2018 | 135 |
| ISABELA | Ilagan City | August 29, 2018 | 245 |
| CAGAYAN DE ORO | Cagayan de Oro City | September 13, 2018 | 183 |
| BONIFACIO | Fort Bonifacio - Taguig | September 20, 2018 | 214 |
| BUTUAN | Butuan City | October 1, 2018 | 159 |
| TACLOBAN | Tacloban City | October 25, 2018 | 235 |
| AGUINALDO | Quezon City | December 5, 2018 | 45 |
| | | **TOTAL** | **1,957** |


Camp Crame, Quezon City

Silang, Cavite


Naga City, Camarines Sur

Gov Camins, Zamboanga City


Buhangin District, Davao City

Upi, Gamu, Isabela


Cagayan de Oro City, Misamis Oriental


Fort Bonifacio, Taguig City

Butuan City, Agusan del Norte

Downtown, Tacloban City

Camp Aguinaldo, Quezon City

# SOCIAL COMMITMENT

We aim to uplift the well-being of our members, their families, and their communities.


Grounded on its core value of "malasakit sa mga miyembro, sa kumpanya at sa bansa", AFPSLAI carried out initiatives on education, health and wellness, and community development.

## SCHOLARSHIP & EDUCATIONAL ASSISTANCE PROGRAM

At the forefront of our Corporate Social Responsibility (CSR) Program is the Scholarship and Educational Assistance Program (SEAP). Since its launch in 2002, AFPSLAI has continued to provide financial assistance to the underprivileged but deserving direct dependents of Regular Members.

For the School Year 2018-2019, AFPSLAI welcomed 65 new scholars coming from the different regions. On the other hand, 24 scholars graduated in 2018 who were honored during the Scholars Banquet in June 2018. Half of them graduated with honors: two (2) Magna Cum Laude and ten (10) Cum Laude. The Banquet's theme, **ASPIRE**, higlighted the importance of setting goals and taking the initiative to achieve those goals.

Below is the speech of **Ms Jolina S Sinco**, AFPSLAI Scholar-Graduate Class of 2018, which she delivered during the Scholars Banquet:

*I could still remember four years ago when I almost quit school due to financial problem and my mother's immediate medication since she has to undergo hemodialysis. I could still remember that very moment when I cried inside the comfort room asking God for an advanced birthday gift…and that was to continue my education. And AFPSLAI came along, God's answered prayer.*

*With the AFPSLAI Scholarship, I was able to focus on learning and achieving my academic goals without worrying about my tuition. Furthermore, valuable opportunities have started to open doors. I was given the chance to lead and serve my fellow students to the various student organizations in our university. Secondly, I was given the honor to compete and represent our school to different competitions and conferences that gave me the opportunity to meet student leaders from the different universities in the Philippines, and most importantly, volunteer community service. Being involved in the city, province and national activities and projects is worth the tears, sweat, sacrifices and time. It taught me how to be selfless and how important it is to touch other people's lives. I have come to realize that to be able to excel, one must learn to challenge one's capabilities to experience growth and attain aspirations in life.*

*On behalf of the scholar-graduates class of 2018, I would like to express my sincere gratitude to AFPSLAI. Thank you for your generosity, which has allowed us to experience remarkable involvement in the university and community. All these things are possible because of the kind of organization like you who values the importance of college education. You're not just helping us build our careers in the future, but how to be dynamic and active members in the community we belong.*

*To my fellow scholar graduates, wherever we go and whatever we do in these next several years, we are qualified to live worthwhile. A sense of home, purpose, or belonging comes from what we bring to a place rather than what was there when we arrived. We would eventually spread ourselves over the country and even outside the country to find adventures and move on to new experiences. In these places, we will develop a new sense of peace and find some causes to be passionate about. As we contribute to these causes, let us be the light to inspire.*

*To the new batch of scholars, welcome to the family. Enjoy college life! Go out of your comfort zones and explore things that would make you better individuals. I firmly believe that once you are an AFPSLAI Scholar, you are an A-person. I would like to challenge you to push yourselves harder and always aim higher because in doing so, you will be successful. Know that you can never be too small to dream big.*

*Last but not the least, I would like to share two scriptures from the Bible:*
*"Delight yourself in the Lord, and he will give you the desires of your heart."*
*~ **Psalm 37:4***
*"For I know the plans I have for you, declares the LORD, plans for welfare and not for evil, to give you a future and a hope." ~ **Jeremiah 29:11***

*Thank you and God bless!*

**MS JOLINA S SINCO**
**Magna Cum Laude**
Silliman University
Bachelor in Business Administration Major in Economics

## OUTREACH PROGRAM

In 2018, the Outreach Program conducted five (5) activities that benefited not only its members but also the different sectors of the community.


***Operation TULI***. Operation TULI was first conducted in 2017 with a favorable response from the members. Thus, the activity was once again conducted in 2018 in Camp Capinpin, Tanay, Rizal; Camp Abelon, Pagadian City; Camp Lapu-Lapu Station Hospital, Lahug, Cebu City; and Camp Elias Angeles Station Hospital, San Jose, Pili, Camarines Sur. Beneficiaries of this activity were children / dependents of AFPSLAI members and children living within the vicinity of the camps. Operation TULI was conducted in the month of April and May, and benefitted a total of 250 children.

***You're Somebody's TYPE - A Blood Donation Drive***. In an effort to replenish the dwindling blood supply, AFPSLAI partnered with the Philippine Red Cross, Isabela Provincial Blood Bank and the AFP / PNP Health Service Units for the blood donation drive.

You're Somebody's Type was conducted in three (3) Branch Offices in July 2018, namely: Isabela Branch at Camp Melchor F Dela Cruz, Upi, Gamu, Isabela; Cagayan de Oro Branch at Camp Evangelista, Cagayan de Oro City; and Lucena Branch at Camp Guillermo Nakar, Lucena City. A total of 306 PA and PNP volunteers registered for this activity.

***It's a Head and Shoulder Double Treat.*** With its successful conduct in 2017 and the requests of members to conduct the same activity this year, the It's a Head and Shoulder Double Treat, a free haircut and back massage offering, was once again conducted this year in all Branch Offices.

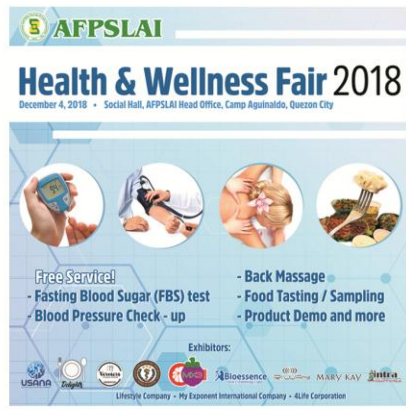
Understanding that most AFPSLAI members, especially those in active service, have very little time to spare to pamper or rejuvenate their tired bodies, AFPSLAI brought the salon closer to their place of work. It's a Head and Shoulder Double Treat was offered to all transacting members on the day of the activity. AFPSLAI members who availed of the services were given free snacks (tea, coffee, local delicacies, biscuits and other sweet treats) and a variety of giveaways (mugs, tumblers, shoe bags, drawstring bags and organic soaps).

A total of 3,611 members and member-dependents took part in the activity.

***Project Joy.*** Inspired by **AFPSLAI for MARAWI Project** in 2017, where AFPSLAI employees and members joined forces in extending their helping hand to the victims of Marawi siege, AFPSLAI launched **Project Joy** in 2018 with the same vision but with a wider reach.

**Project Joy** is a Christmas gift-giving activity wherein main beneficiaries are the wounded soldiers confined in different hospitals across the nation. Aside from them, the activity also reached out to other members of the community such as the school children; victims of and displaced residents due to the recent typhoons; indigenous community; our Muslim brothers; and senior citizens / retirees / war veterans. Through **Project Joy**, AFPSLAI brought smiles to their faces as blessings of hope and joy were offered through a simple gift - a bag of grocery items.

***Health & Wellness Fair 2018***. As part of its 46th Anniversary, AFPSLAI conducted a Health & Wellness Fair on December 4, 2018 at the Social Hall, AFPSLAI Head Office, Camp Aguinaldo, Quezon City. The aim of the activity is to offer AFPSLAI members various activities and services that will help them develop healthier lifestyles. Among the services offered were Fasting Blood Sugar (FBS) Test, Blood Pressure Check-up, Body Toxin Analysis and Back Massage. Other exhibitors offered healthy lifestyle options such as health drinks, stem cell therapy, skin care products, organic food supplements, and multi-vitamins while others offered clients some free food samples and coffee.




For this activity, AFP Medical Center volunteered some of its nurses to participate in the activity and they were the ones who conducted the FBS Test and Blood Pressure Check-up. Exhibitors who participated in the one-day event were: Waters Philippines, USANA, Bioessence, Riway, MX3, 4Life Corporation, INTRA, Mary Kay, My Exponent International Company, Verviers Cookie Company and 101 Delights.

## CORPORATE GIVING

As part of its corporate philosophy, AFPSLAI always seeks opportunities to give back to its members and the community where it operates. Through its Donations Program, AFPSLAI is able to support various initiatives of its members, be it in health, education or community development. This corporate giving is a manifestation of AFPSLAI's gratitude for the loyalty and unwavering support of its members for the last 46 years.

# CORPORATE GOVERNANCE

**A**s reflected in AFPSLAI's vision, the Association seeks to be "the role model for good corporate governance practices". AFPSLAI believes that an effective corporate governance is crucial in gaining and sustaining the trust of the stakeholders, and is critical in the management and operations of the Association.

## BOARD COMPOSITION

The AFPSLAI Board of Trustees is composed of fifteen (15) highly qualified professionals with a broad range of expertise. The trustees are elected at the Annual Membership Meeting. Each member holds office for a term of one (1) year until his / her successor has been duly elected. Any regular member can be elected to a maximum of five (5) cumulative terms as a trustee.

## BOARD ROLES AND RESPONSIBILITIES

The Board of Trustees is collectively responsible for the direction and oversight of the Association to ensure its long-term success. It shall have full charge of all the properties, interests and business transactions of the Association.

During its Corporate Retreat, the Board establishes AFPSLAI's vision, mission and core values. It is also where the Board sets the strategic thrusts and directions, which shall serve as the guide of Management during the Operational Planning Sessions. As part of its oversight functions, the Board monitors and evaluates the Management's performance, particularly the implementation of the Business Plan.

In discharging their duties, it is incumbent upon the Board to always act in good faith, with due care and diligence, and to exercise business judgement on an informed basis in the best interests of the Association and its stakeholders.

The main duties of the Board are defined in the By-Laws. The Board has also approved the written charters for the Board Committees, which set forth the purpose, composition and duties of each committee.

## BOARD MEETINGS AND ATTENDANCE

To exercise its discretionary powers and management oversight of the Association, the Board of Trustees meets on a regular basis as required by law and the AFPSLAI By-Laws. Special meetings are also held as may be called by the Chairman. The presence of eight (8) out of fifteen (15) trustees is necessary to constitute a quorum.

For 2018, the Board had a total of 18 meetings (12 Regular and 6 Special), where the Board posted an overall attendance rate of 98.75%. Summarized below is the attendance of Trustees in Board meetings from January to December 2018:

| TRUSTEE | MEETINGS ELIGIBLE TO ATTEND | MEETINGS ATTENDED | % | |
|---|---|---|---|---|
| GEN BENJAMIN R MADRIGAL JR AFP | 1 | 1 | 100.00% | *Elected in December 2018* |
| MGEN ROMEO D LUSTESTICA AFP (RET) | 18 | 18 | 100.00% | |
| MGEN EMERALDO C MAGNAYE AFP (RET) | 18 | 17 | 94.44% | |
| MR HECTOR M ATIENZA | 18 | 18 | 100.00% | |
| LTGEN SALVADOR MELCHOR B MISON JR AFP | 10 | 10 | 100.00% | *Elected in May 2018* |
| MGEN RIZALDO B LIMOSO AFP | 10 | 10 | 100.00% | *Elected in May 2018* |
| PLTGEN ARCHIE FRANCISCO F GAMBOA | 18 | 18 | 100.00% | |
| PMGEN EDWIN C ROQUE | 10 | 10 | 100.00% | *Elected in May 2018* |
| PBGEN EDDIE B BENIGAY (RET) | 18 | 18 | 100.00% | |
| PBGEN JOSELITO M VERA CRUZ | - | - | - | *Elected in February 2019* |
| BGEN RUFINO G RAMORAN JR AFP | 18 | 17 | 94.44% | |
| COL ROY M GALIDO (GSC) PA | 18 | 18 | 100.00% | |
| CAPT BRENDO J CASACLANG (GSC) PN | 18 | 18 | 100.00% | |
| COL ALVIN M HATE (MNSA) PAF | 16 | 15 | 93.75% | *Elected in February 2018* |
| FCMS LITO A TOMPAYOGAN (INF) PA | 18 | 18 | 100.00% | |

# BOARD TRAININGS AND SEMINARS

Members of the Board attend trainings and seminars to keep them abreast on the matters which are relevant to the business and operations of the Association. On the other hand, newly-elected trustees are required to complete the Corporate Governance Orientation prior to the exercise of their duty as members of the Board, as required in BSP Manual of Regulations for Non-Bank Financial Institutions (MORNBFI).

| DATE | COURSE/TITLE | SPONSOR/ TRAINER | ATTENDEES |
|---|---|---|---|
| January 31, 2018 | New Tax Implementation Program | University of Asia and the Pacific | MGen Emeraldo C Magnaye AFP (Ret) |
| March 7, 2018 | Corporate Governance Orientation Program | Institute of Corporate Directors | FCMS Lito A Tompayogan (INF) PA |
| March 20, 2018 | Briefing on Anti-Money Laundering Act | AFPSLAI (Mr Virgilio R Prion) | PBGen Eddie B Benigay (Ret)<br>BGen Rufino G Ramoran Jr AFP<br>Capt Brendo J Casaclang (GSC) PN<br>FCMS Lito A Tompayogan (INF) PA |
| April 28, 2018 | Learning Session on Treasury Operations | Union Bank (Mr Ramon Pichay) | MGen Emeraldo C Magnaye AFP (Ret) |
| May 11, 2018 | Financial Literacy Program | Bureau of Treasury / Landbank of the Philippines | MGen Emeraldo C Magnaye AFP (Ret) |
| June 11, 2018 | Briefing Session for Trustees | AFPSLAI (All SVPs and Heads of Corplan, CAD, HRMD, ISD, CCO, RMO and GAO) | LtGen Salvador Melchor B Mison Jr AFP<br>MGen Rizaldo B Limoso AFP<br>PMGen Edwin C Roque<br>BGen Rufino G Ramoran Jr AFP<br>Col Roy M Galido (GSC) PA<br>Col Alvin M Hate (MNSA) PAF<br>FCMS Lito A Tompayogan (INF) PA |
| July 5 & 6, 2018 | Good Corporate Governance Seminar | Alliance of Non-Stock Savings and Loan Institutions (ANSLI) | Col Alvin M Hate (MNSA) PAF |
| November 6, 2018 | Corporate Governance Orientation Program | Institute of Corporate Directors | LtGen Salvador Melchor B Mison Jr AFP<br>PMGen Edwin C Roque |

## BOARD EVALUATION

Yearly, the Board carries out an evaluation of the effectiveness of its performance through a Board Self-Assessment Questionnaire. The questionnaire is meant to get responses on the quality of performance as contributed both by the individual Trustee and the Board as a group. Responses are used as basis for further improvement in the way the Board applies corporate governance principles in carrying out their regular functions as members of the Board.

Appraisal of the Board-level Committees was also conducted to measure the Committees' performance with respect to their roles and responsibilities as provided in their respective Charters.

The Board and all its sub-committees received an Exceptional Rating for the period June 2018 to April 2019.

## BOARD COMMITTEES

To enable the Board to perform its functions effectively, the following Committees were formed: *Governance Committee, Risk Oversight Committee, Audit & Compliance Committee, Human Resource & Compensation Committee, Credit & Collection Committee, Membership & Amendment Committee, and Information Technology Steering Committee.*

Each Committee is responsible for carrying out the duties assigned to it in its charter. It also reviews its charter periodically and proposes changes in the Board for approval.

# GOVERNANCE COMMITTEE

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

Total No. of Meetings: 19

| TRUSTEE | DESIGNATION | MEETINGS ELIGIBLE TO ATTEND | MEETINGS ATTENDED |
|---|---|---|---|
| MGEN ROMEO D LUSTESTICA AFP (RET) | Chairman | 19 | 19 |
| MGEN EMERALDO C MAGNAYE AFP (RET) | Ex-Officio Member | 19 | 19 |
| MR HECTOR M ATIENZA | Member | 19 | 17 |
| MGEN RIZALDO B LIMOSO AFP | Member | 11 | 11 |
| PLTGEN ARCHIE FRANCISCO F GAMBOA | Member | 19 | 12 |
| PBGEN EDDIE B BENIGAY (RET) | Member | 19 | 15 |
| BGEN RUFINO G RAMORAN JR AFP | Member | 19 | 18 |
| COL ROY M GALIDO (GSC) PA | Member | 11 | 10 |

**MAJOR ACCOMPLISHMENTS**

Endorsed the following for Board approval:

- Granting of Expected Dividend Advance (EDA) and Distribution of Undivided Profits for the 4th quarter 2017, and 1st to 3rd quarters 2018
- Annual Declaration of Dividend for the Year 2017 and Allocation for Other Expenditures
- Disposition of Remaining Donations Fund Balance for 2017
- Major donations to various units within AFPSLAI's well-defined group
- Operation/relocation/transfer of extension offices
- Outreach Program for 2018
- Amendments in the AFPSLAI Scholarship and Educational Assistance Program
- Funding Requirements for the Scholarship and Educational Assistance Program for 2018 - 2023
- 2018 AFPSLAI Financial Literacy Program
- Revised Levels of Approving Authority
- Revised Vision, Mission, Core Values, Strategy Map, Strategic/Governance Scorecard for 2019 to 2022 including the revisions on the Initiatives
- Revised Guidelines on EDA
- Confirmation/Hiring of SVPs
- Christmas Promo for Borrowers (Paskong Puno ng Pasasalamat)
- AFPSLAI Nominees and Proxy to CFC's and Aguinaldo Theater Enterprise Incorporated (ATEI's) Stockholders' Meetings
- AFPSLAI's Business Plan for 2019

One of the significant accomplishments of the Governance Committee was the approval of the Revised Levels of Approving Authority. Said Policy defines the limits of authority granted to Management and the matters that need to be elevated at the Board level.

To be able to adapt to current developments in the operating environment, another significant accomplishment was the Revised Vision, Mission, Core Values, Strategy Map, Strategic/Governance Scorecard for 2019 to 2022 including the revisions on the initiatives to support the attainment of the set goals.

The Governance Committee also revised the Guidelines on EDA to address the BSP findings on accumulated balances from 2015 – 2016 particularly from Disbursement Account (DA)-14. One of the salient features is the discontinuance of the use of DA-14 and that EDA disbursement shall now be thru Savings Deposit (SD)-02.

As part of the Association's corporate social responsibility (CSR), on top of the donations granted to various units within AFPSLAI's well-defined group, the Governance Committee approved the amendments in the Scholarship and Educational Assistance Program and the required funding for 2018-2023. The Governance Committee also approved the Outreach Program where a combination of medical mission and health-related activities were lined up in response to the needs of the members in all Branch Offices. Another CSR program that was approved by the Governance Committee was the Financial Literacy Program. Aside from complying 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 objective of the said Program is to educate our members on responsible borrowing and on how to properly handle their finances.

The Governance Committee also reviewed the Association's financial and operational highlights on a monthly basis, and discussed the Corporate Program Performance Review and Assessment for the Year 2017. The Committee also regularly monitored the performance of the Association's subsidiaries.

The Governance Committee, together with the Audit and Compliance Committee, also approved the AFPSLAI Business Plan which is a consolidated document that sets out the Association's business objectives and direction for the Year 2019. The Master Budget provides details on the budgetary requirement and capital additions for the year, as well as the projected financial statements that would give a picture of the expected financial performance results of the Association for the Year 2019.

With the aim to provide insights on awareness levels and market reach in our key source markets (members and non-members), a market research survey was conducted by Management through a third party consultant, Philippine Survey Research Center (PSRC). The 2018 Market Survey Results also shed light on the market's savings and loan behavior, attitude and product considerations which were discussed and duly noted by the Governance Committee.

The Governance Committee also discussed relevant new BSP Circulars such as BSP Circular No. 1013 Series of 2018 on the Amendments to the Rules Governing Prejudicial Acts, Practices or Omissions of Non-stock Savings and Loan Associations, and the BSP Circular on Fund Investments. The Committee also discussed provisions of the General Appropriations Bill for 2018 particularly 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. The Committee also screened candidates for SVP positions, and endorsed its recommendations to the Board. The designation of Chairmen and Members in Standing Board Committees was also recommended by the Governance Committee.

Likewise, the Governance Committee, as part of its performance evaluation function, assessed the performance of the individual Trustees and Corporate Officers based on the set evaluation criteria.

## RISK OVERSIGHT COMMITTEE

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

Total No. of Meetings: 13

| TRUSTEE | DESIGNATION | MEETINGS ELIGIBLE TO ATTEND | MEETINGS ATTENDED |
|---|---|---|---|
| MGEN RIZALDO B LIMOSO AFP | Chairman | 8 | 8 |
| MGEN ROMEO D LUSTESTICA AFP (RET) | Member | 13 | 13 |
| MGEN EMERALDO C MAGNAYE AFP (RET) | Member | 13 | 13 |
| MR HECTOR M ATIENZA | Member | 8 | 7 |
| LTGEN SALVADOR MELCHOR B MISON JR AFP | Member | 8 | 6 |
| PBGEN EDDIE B BENIGAY (RET) | Member | 11 | 10 |
| PMGEN EDWIN C ROQUE | Member | 8 | 5 |

### MAJOR ACCOMPLISHMENTS

Endorsed the following for Board approval:

» Designation of authorized signatories for Head Office and Branch Offices
» Government Securities for Withdrawable Share Reserve
» Opening of bank accounts for extension offices
» Selection of Service Providers (health care, security, janitorial and messengerial services)
» Market Risk Management Policy
» Availment of Credit Line with Accredited Banks
» Creation of New Deposit Products (Special Savings Account (SSA) and Savings Deposit (SD) – Remittance Account)
» Revised Business Continuity Plan (BCP) Manual

One of the major accomplishments of the Risk Oversight Committee was the approval of the Market Risk Management Policy, which institutionalizes a mechanism for the identification, measurement, monitoring and control of market risks faced by the Association. Said Policy is also in compliance to BSP Circular No. 544 which requires all supervised financial institutions to have risk management and governance structures to identify, measure, manage and monitor market risks.

As part of the Risk Oversight Committee's function to monitor the Association 's liquidity level, the Committee discussed several options to generate fresh funds to further augment the cash requirement due to a very high demand for loans, which are all pursuant to our Contingency Funding Plan. The Committee approved the availment of credit line with accredited banks that will provide immediate response at the least possible cost.

Relatedly, with the end view of assisting our members in building wealth through savings, and at the same time lessen the Association's dependency on bank loans, the Risk Oversight Committee approved the creation of new deposit products, namely: SSA and SD-Remittance Account effective October 2018.

The liquidity level and projected cash requirements for operations were monitored by the Risk Oversight Committee on a monthly basis. 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.

To ensure that our branch and upgraded extension offices are serviced for their cash requirements, the Risk Oversight Committee approved the opening of bank accounts with accredited banks that will facilitate the encashment of loan checks and provide the cash requirement for their tellering transactions.

Another significant accomplishment of the Risk Oversight Committee was the approval of the Revised BCP Manual to ensure that it complies with the necessary standards. Said Manual defines the disaster recovery and management process necessary to ensure continuity of AFPSLAI's operations in the event of a disaster or business interruption.

The Risk Oversight Committee also discussed the monthly reports of the Risk Officer on the updates on the Risk Management Plan, Credit Risk Scorecard, Risk-related Special Projects of the Association, namely: a) Credit Risk – Credit Information System Act (CISA) (R.A. 9510); b) IT Risk – BSP Circular 808 re: IT Risk Management System Consultancy; and c) Regulatory Risk – Data Privacy Act (R.A. 10173), AFPSLAI Voyager Project, and Quarterly Updates on Medium and High Risks. 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 discussed relevant BSP Circulars such as BSP Circular No. 994 re: Amendments to the Manual of Regulations for Non-bank Financial Institutions applicable to NSSLA – Fund Investments, and BSP Circular No. 941 re: Amendments to the Regulations on Past Due and Non-performing Loans.

The Risk Oversight Committee also evaluated the performance of the Risk Officer on a quarterly basis.

## AUDIT & COMPLIANCE COMMITTEE

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

Total No. of Meetings: 18

| TRUSTEE | DESIGNATION | MEETINGS ELIGIBLE TO ATTEND | MEETINGS ATTENDED |
|---|---|---|---|
| PBGEN EDDIE B BENIGAY (RET) | Chairman | 18 | 17 |
| MGEN ROMEO D LUSTESTICA AFP (RET) | Member | 18 | 18 |
| LTGEN SALVADOR MELCHOR B MISON JR AFP | Member | 9 | 6 |
| MGEN RIZALDO B LIMOSO AFP | Member | 9 | 9 |
| PBGEN JOSELITO M VERA CRUZ | Member | - | - |
| BGEN RUFINO G RAMORAN JR AFP | Member | 18 | 14 |
| FCMS LITO A TOMPAYOGAN (INF) PA | Member | 18 | 16 |

**MAJOR ACCOMPLISHMENTS**

Endorsed the following for Board approval:

- Audited Financial Statements of AFPSLAI for the Year-ended 31 December 2017 by Isla Lipana
- Selection of External Auditor for the 2018 Year-end Financial Audit
- Past Due Accounts for Write-off
- AFPSLAI's Data Privacy Manual
- AFPSLAI's Revised Money Laundering and Terrorist Financing Prevention Program (MLTFPP) Version 6
- AFPSLAI's Compliance Program Version 2.0

One of the significant accomplishments of the Audit and Compliance Committee was the approval of AFPSLAI's Data Privacy Manual in compliance to Republic Act No. 10173 re: Data Privacy Act (DPA) of 2012 which aims to protect personal data in information and communication systems both in government and private sector. Said Manual defines the procedures and measures that will guarantee the safety and security of personal data.

To comply with the Anti-Money Laundering Act (AMLA), another significant accomplishment of the Audit and Compliance Committee was the approval of AFPSLAI's Revised MLTFPP (Version 6) that covers all covered and suspicious transactions, compliance testing, AML risk assessment, among others, based on set parameters and guidelines.

As part of the Audit and Compliance Committee's oversight function on regulatory compliance, the Committee approved AFPSLAI's Compliance Program Version 2 which provides pertinent policies and guidelines governing the implementation of the Compliance Program which is part of the Compliance System of the Association. The Compliance System is purposely designed, among others, to address, monitor, and measure the management of compliance risk, to conform to corporate governance best practices, and meet the standards established by the BSP and the SEC.

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; BSP Report of Examination; and other laws and BSP Circular issuances.

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, Information Systems audits and special audits. The Committee also monitored and followed up compliance to previous and recurring audit findings and recommendations, and reviewed the evaluation of actions taken by the auditees.

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, and made sure that financial recording adheres to the Philippine Financial Reporting Standards (PFRS) and BSP requirements. Relatedly, the Committee reviewed the Audited Financial Statements of the Association prepared by the External Auditor. The Committee likewise recommended to the Board the selection of External Auditor for the 2018 Year-end financial audit based on the set Process and Evaluation Criteria for External Auditors.

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

# HUMAN RESOURCE & COMPENSATION COMMITTEE

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

Total No. of Meetings: 12

| TRUSTEE | DESIGNATION | MEETINGS ELIGIBLE TO ATTEND | MEETINGS ATTENDED |
|---|---|---|---|
| MR HECTOR M ATIENZA | Chairman | 7 | 6 |
| MGEN ROMEO D LUSTESTICA AFP (RET) | Member | 12 | 12 |
| MGEN EMERALDO C MAGNAYE AFP (RET) | Member | 12 | 12 |
| PBGEN EDDIE B BENIGAY (RET) | Member | 7 | 7 |
| CAPT BRENDO J CASACLANG (GSC) PN | Member | 12 | 8 |
| COL ALVIN M HATE (MNSA) PAF | Member | 11 | 8 |
| FCMS LITO A TOMPAYOGAN (INF) PA | Member | 12 | 8 |

**MAJOR ACCOMPLISHMENTS**

Endorsed the following for Board approval:

- » Actuarial Valuation Report 2017
- » Performance Targets for the Retirement Fund for 2018
- » Enhancements in Retirement Fund Loan Programs
- » Revised Policy on Hiring, Promotion and Other Personnel Movements
- » Changes to Memorandum Circular No. A0-011-2017 re: Implementing Rules and Regulations (IRR) Governing Administration of Performance-based Salary Increase for Officers
- » Consolidated Policy Guide for the Granting of Performance Bonuses to Employees and BOTs
- » Changes to Educational Assistance Policy
- » Corporate Uniforms for 2019
- » Salary Increase for Supervisors and Up
- » Increase in Per Diem of BOT and Corporate Secretary

As part of the Committee's function to oversee strategic Human Resource policies, one of its major accomplishments was the approval of the Revised Policy on Hiring, Promotion and Other Personnel Movements. The objective of the revision was to improve internal processes, establish accountability and encourage efficiency within the office.

Another policy revision approved by the Committee was on the IRR Governing Administration of Performance-based Salary Increase for Officers. Said Policy defines the guidelines and mechanics to govern the administration of the performance-based salary increase for Supervisors, Managers, SVPs, EVP-GM and President & CEO pursuant to resolutions previously approved by the Board.

Another major accomplishment of the Committee was the approval of the enhancements in Retirement Fund Loan Programs, particularly on the Employee Car Loan Program and the launching of the Special Retirement Fund Loan. These loan products are administered by the Retirement Fund with the end in view of growing its portfolio investments.

As part of the Committee's oversight function on the Retirement Fund, it noted the Actuarial Valuation Report of the Retirement Fund for 2017. The Actuarial Valuation is being done on an annual basis for the purposes of: 1) PAS 19 financial reporting; 2) Funding Valuation Status; and 3) determination of the required contribution (set-up) for the following year. The Committee also noted the performance targets of the Retirement Fund and monitored the monthly Retirement Fund report insofar as fund balance status, income and expense highlights, employee loan portfolio, and fund utilization are concerned.

The Committee also discussed matters on succession management and planning especially for key positions to ensure continuity of business operations in case of vacancy brought about by retirement, resignation, transfer, sickness, separation, death and other causes.

The Committee also approved reasonable salary increases for Supervisors and Managers, and increase in per diem of the BOT and Corporate Secretary, in consideration of the financial condition of the Association as of the time of the grant.

# CREDIT & COLLECTION COMMITTEE

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.

Total No. of Meetings: 23

| TRUSTEE | DESIGNATION | MEETINGS ELIGIBLE TO ATTEND | MEETINGS ATTENDED |
|---|---|---|---|
| PLTGEN ARCHIE FRANCISCO F GAMBOA | Chairman | 23 | 19 |
| MGEN EMERALDO C MAGNAYE AFP (RET) | Member | 23 | 22 |
| PBGEN JOSELITO M VERA CRUZ | Member | - | - |
| BGEN RUFINO G RAMORAN JR AFP | Member | 23 | 22 |
| COL ROY M GALIDO (GSC) PA | Member | 23 | 17 |
| CAPT BRENDO J CASACLANG (GSC) PN | Member | 23 | 19 |
| COL ALVIN M HATE (MNSA) PAF | Member | 21 | 13 |

**MAJOR ACCOMPLISHMENTS**

Endorsed the following for Board approval:

- Interest Rates Reduction for Consumption Loans
- Reduction in Back-to-Back Loan Rates
- Real Estate Loan Re-Pricing
- Extension of Promotional Period for Vehicle Loans
- Loan applications of Directors, Officers, Stockholders and their Related Interests (DOSRI)
- Loan applications (Real Estate and Vehicle Loans)
- Commutation Loan for PN Personnel
- Re-pricing of ROPA
- Revised DOSRI Guidelines
- Policy on Management of Civilian Field representatives (CFRs)
- Insurance Coverage for Collateralized Loans with Manulife
- Batch Waiver of Interest on Past Due Loans
- Pre-Owned Vehicle Loan (POVL)
- Policy on Accreditation Car Dealers and Appraisal Company for POVL
- Default or Past Due Definition

One of the Association's strategic objectives is to aggressively grow the business and one way of achieving that is through improvements in credit policies. Along this line, one of the major accomplishments of the Credit and Collection Committee was the change in the policy fixing the Back-to-Back loan rate from a floating rate anchored on the annual dividend rate to a fixed and reduced rate.

Given the desire to recapture our market leadership in all market segments, another major accomplishment of the Committee was the approval of the reduction of interest rates on consumption loans effective 02 January 2019, making AFPSLAI's interest rates on consumption loans the lowest in the industry. Relatedly, the interest rates on real estate loans were reduced with the objective of penetrating the untapped market by offering competitive rates. Also, given the strong consumer demand on vehicle loans, the Committee approved the extension of the promotional rates until the end of June 2019.

The Committee has also approved the launching of new loan products such as the Commutation Loan for PN Personnel to address PN personnel's immediate financial requirements in preparation for their retirement, and the Pre-Owned Vehicle Loan (POVL) to extend an affordable loan facility to members who either cannot afford a brand new vehicle or opt to purchase a second hand unit. A Policy on the Accreditation of Car Dealers and Appraisal Company was also approved by the Committee which provides the guidelines and procedures to govern the accreditation of car dealers and appraisal companies specifically for POVL.

In line with the Association's generation of loans, Civilian Field Representatives (CFRs) are engaged as allowed by the BSP. The Committee approved the Policy on Management of CFRs which defines the guidelines governing the screening, selection, engagement, performance assessment, and termination of engagement of accredited CFRs.

To comply with BSP Circular 941 re: Amendments to the Regulations on Past Due and Non-Performing Loans, the Committee approved the adoption of the loan classification and the subsequent set-up of the required additional provision pursuant to the said Circular.

As part of the Committee's ROPA management function, it approved the re-pricing of ROPA by setting the minimum selling price for regular and hard-to-sell assets.

The 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 Loan Assessment Report and status of ROPA on a quarterly basis.

# MEMBERSHIP & AMENDMENT COMMITTEE

The Membership & 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.

Total No. of Meetings: 13

| TRUSTEE | DESIGNATION | MEETINGS ELIGIBLE TO ATTEND | MEETINGS ATTENDED |
|---|---|---|---|
| BGEN RUFINO G RAMORAN JR AFP | Chairman | 13 | 12 |
| PBGEN JOSELITO M VERA CRUZ | Member | - | - |
| PMGEN EDWIN C ROQUE | Member | 7 | 3 |
| COL ROY M GALIDO (GSC) PA | Member | 13 | 10 |
| CAPT BRENDO J CASACLANG (GSC) PN | Member | 13 | 12 |
| COL ALVIN M HATE (MNSA) PAF | Member | 12 | 7 |
| FCMS LITO A TOMPAYOGAN (INF) PA | Member | 13 | 10 |

**MAJOR ACCOMPLISHMENTS**

Endorsed the following for Board approval:

- Application for new membership/re-admission
- Application for termination of membership
- Expulsion of membership
- Amendments to the By-laws (New Provision on the Termination of Membership for Non-updating of Membership Records)
- Implementing Rules & Regulations (IRR) covering Termination of Membership Outside Well-Defined Group
- Compliance Plan for Membership Registry Cleansing
- Membership Recruitment Plan

One of the significant accomplishments of the Membership and Amendment Committee was the approval of the amendments to the By-laws on Article XI, Termination of Membership, introducing a new provision for Non-updating of Membership records to comply with the BSP directive to cleanse the membership records of those members who have not updated their membership records as required by law, which is once every three (3) years.

To properly administer the membership cleansing efforts of the Association, another significant accomplishment of the Committee was the approval of the IRR Covering Termination of Membership Outside the Well-Defined Group. Said Policy defines the specific rules and regulations governing the termination of membership of members belonging to certain pay jurisdictions that are outside the well-defined group of AFPSLAI. As of end December 2018, out of 1,263 members outside the well-defined group, a total of 1,108 were already terminated/cleansed by the Association.

Meanwhile, BSP Circular 993 requires NSSLAs to develop clearly defined and written selection and screening policies and procedures to ensure compliance with their well-defined group. Along with this, the Committee approved the Compliance Plan for Membership Registry Cleansing that defines the actions to be taken by the Association to ensure identity and eligibility of its existing members upon effectivity of the said Circular. Out of 546,624 members as of February 2018, a total of 347,729 were verified with existing envelope/folder and tagged in the system.

The Committee also discussed the Membership Recruitment Plan which includes the total new members target for the Year 2018, distribution of the same per distribution channel (by branch office) and the general plan of action for membership recruitment.

The Committee also deliberated on the monthly Membership Report. It also regularly discussed the updates on the cleansing of membership database, and initiatives on membership perspective.

## INFORMATION TECHNOLOGY STEERING COMMITTEE

The IT Steering Committee provides governance to ensure the alignment of the 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.

Total No. of Meetings: 12

| TRUSTEE | DESIGNATION | MEETINGS ELIGIBLE TO ATTEND | MEETINGS ATTENDED |
|---|---|---|---|
| COL ROY M GALIDO (GSC) PA | Chairman | 7 | 7 |
| MGEN ROMEO D LUSTESTICA AFP (RET) | Member | 12 | 12 |
| MGEN EMERALDO C MAGNAYE AFP (RET) | Member | 7 | 7 |
| MR HECTOR M ATIENZA | Member | 12 | 11 |
| PMGEN EDWIN C ROQUE | Member | 7 | 6 |

**MAJOR ACCOMPLISHMENTS**

Endorsed the following for Board approval:

» Quality Assurance Services for the AFPSLAI Mosaic Voyager Project
» Creation of Information Security Office (ISO)
» Information Technology Risk Assessment Results by PriceWaterhouseCoopers (PwC)

To ensure smooth implementation of the AFPSLAI Voyager Project, the system that would replace the IMCS2 foreseen to improve operational efficiency, processing time and increase productivity thru simplified processes, one of the major accomplishments of the IT Steering Committee was the approval of the engagement of a third party IT company for quality assurance services. The coverage of the engagement includes functional and performance testing.

Another significant accomplishment of the Committee was the approval of the Creation of the Information Security Office (ISO) which is in compliance to BSP Circular 982 re: Enhanced Guidelines on Information Security Management in line with rapidly evolving technology and cyber-threat landscape. The ISO's function shall focus on Information Security, specifically to: 1) establish security roles, responsibilities and accountabilities; 2) create policies, standards and procedures and implement security awareness, and 3) evaluate and recommend necessary infrastructure to support mitigation and elimination of internal and external threats.

The Committee also noted the results of the IT Risk Assessment by PwC, which defined the enterprise-wide IT risks faced by the Association.

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

# BOARD OF TRUSTEES

## GEN BENJAMIN R MADRIGAL JR AFP
Chairman

GEN Madrigal Jr AFP was elected as the Chairman of the AFPSLAI Board of Trustees on December 11, 2018 upon his assumption as Chief of Staff of the Armed Forces of the Philippines. He is a member of the Philippine Military Academy "Sandiwa" Class of 1985.

GEN Madrigal holds a Master's Degree in Management Studies from the University of New South Wales in Canberra, Australia; and a Master's Degree in Public Administration from the Philippine Christian University. He also completed the Professional Directors' Program from the Institute of Corporate Directors and is a member of the Society of Fellows of this prestigious institution. He also took up other executive courses such as the Senior Executive Course on National Security at the National Defense College of the Philippines, the Financial Analysis Course at the University of Asia and the Pacific, and the Defense Resource Management Course in Canberra, Australia.

GEN Madrigal is also the concurrent Chairman of the Boards of the Armed Forces and Police Mutual Benefit Association, Inc. (AFPMBAI) and the AFP Retirement and Separation Benefits System (AFPRSBS).

## MGEN ROMEO D LUSTESTICA AFP (RET)
Vice Chairman

MGEN Lustestica was elected in May 2015 serving his fourth term as a member of the AFPSLAI Board of Trustees. He has been elected as the Vice Chairman of the Board since August 2016. Prior to his membership in the Board, he has served as the Executive Vice President and General Manager of AFPSLAI from May 2012 until he retired in September 2015. He graduated as a member of the Makatarungan Class of 1978 from the Philippine Military Academy, and earned his Master's Degrees in Management and Business Administration at the Philippine Christian University. He is also a Fellow of the Institute of Corporate Directors.

MGEN Lustestica has been a Director of the Centennial Financing Corporation, a subsidiary of AFPSLAI, from 2012 until 2016. He has been a consultant of AFPMBAI prior to his stint in AFPSLAI.

MGEN Lustestica has undergone various seminars and trainings on financial, enterprise-wide risk and labor management.

## MGEN EMERALDO C MAGNAYE AFP (RET)
President and CEO / Trustee

MGEN Magnaye has joined the AFPSLAI Board of Trustees in August 2016. He was appointed as the Executive Vice President and General Manager of AFPSLAI in October 2017 prior to his election as the President and Chief Executive Officer in May 2018. He holds a Bachelor of Science Degree from the Philippine Military Academy (Class 1983), a Certificate in Business Economics at the University of Asia and the Pacific, and a Graduate Diploma in Information Systems at the University of Melbourne.

Prior to joining the AFPSLAI Family, MGEN Magnaye has been a Trustee of the Armed Forces and Police Mutual Benefit Association, Inc. (AFPMBAI) in 2015. He has also been a Director of the Air Cavaliers Credit Cooperative from March 2015 to March 2016.

## MR HECTOR M ATIENZA
Trustee

Mr Atienza has been elected as a member of the AFPSLAI Board of Trustees since October 2017. Prior to his election, he has served as the Executive Vice President and General Manager of AFPSLAI from September 2015 until his retirement in October 2017. He has also held other executive positions such as SVP for Treasury, SVP for Operations, SVP for Comptrollership and SVP for Corporate Planning Department. He was also the Budget Officer of the Philippine Navy prior to joining AFPSLAI in 1992.

Mr Atienza holds a Bachelor of Science Degree in Applied Science from the US Naval Academy in Annapolis, USA (1983) and is also a member of PMA Matikas Class of 1983. He also earned his Master's Degree in Business Administration at the University of the Philippines, Diliman and currently completing his Doctorate in Business Administration at the Dela Salle University, Manila.

Mr Atienza was also inducted as a Fellow of the Institute of Corporate Directors in 2013.

## LTGEN SALVADOR MELCHOR B MISON JR AFP
Trustee

LTGEN Mison Jr was elected as a member of the AFPSLAI Board in May 2018. He assumed the post as the Vice Chief of Staff of the Armed Forces of the Philippines in January 2017. Prior to his appointment as the Vice Chief of Staff, he also assumed as The Deputy Chief of Staff of the Armed Forces of the Philippines in 2016. He holds a Bachelor of Science Degree from the Philippine Military Academy (Class 1984) and a Master's Degree in Public Administration Major in Policy and Program Administration at the University of the Philippines in Diliman. He also earned a Post Graduate Diploma in Defense Studies at the Massey University in New Zealand.

## MGEN RIZALDO B LIMOSO AFP
Trustee

MGEN Limoso is a returning member of the AFPSLAI Board and serving at his fifth and final term. His first election was in October 2014 when he was designated as the Chief, AFP Finance Center until October 2017 and he was re-elected in May 2018. He currently holds the position of the Vice Commander of the Philippine Army which he assumed in February 2019. He is a graduate of Bachelor of Science from the Philippine Military Academy (Class 1986) and a holder of a Master's Degree in Business Administration at the Ateneo De Manila University and Master of Applied Finance Degree at the University of Melbourne.

MGEN Limoso was also inducted as a Fellow of the Institute of Corporate Directors in 2013.

## PLTGEN ARCHIE FRANCISCO F GAMBOA
Trustee

PLTGEN Gamboa has been serving as a member of the AFPSLAI Board since August 2016. He currently holds the position of The Deputy Chief, PNP for Operations. Prior to his appointment to the current position, he was The Chief of the Directorial Staff and the Director for Comptrollership of the Philippine National Police. He has a Bachelor of Science Degree from the Philippine Military Academy (Class 1986) and a Master's Degree in Business Administration from the Father Saturnino Urios University. He is also a lawyer, who earned his Bachelor of Laws Degree at the Jose Rizal University.

## PBGEN EDDIE B BENIGAY (RET)
Trustee

PBGEN Benigay has been elected as a member of the AFPSLAI Board since August 2016. Prior to his election as a member of the Board, he was the Director of the Regional Internal Affairs Service 7 of the PNP. He has a Bachelor of Science Degree from the Philippine Military Academy (Class 1986) and a Master's Degree in Public Administration Degree from the Aquinas University.

## PMGEN EDWIN C ROQUE
Trustee

PMGEN Roque was elected as a member of the Board in May 2018. He is currently the Director for Logistics of the Philippine National Police. Prior to his appointment as Director for Logistics in December 2018, he was the Director of the PNP Directorate for Plans. He was also the former Director of the PNP Legal Service.

PMGEN Roque holds a Bachelor of Science Degree from the Philippine Military Academy (Class 1986) and a Master's Degree in Business Administration from the Pamantasan ng Lungsod ng Maynila. He is also a licensed lawyer, who earned his Bachelor of Laws Degree at the Jose Rizal University.

## PBGEN JOSELITO M VERA CRUZ
Trustee

PBGEN Vera Cruz recently joined the AFPSLAI Board in February 2019. He is currently the Director of the PNP Finance Service. He is a graduate of Bachelor of Science (Class 1987) from the Philippine Military Academy and holds a Master in Government Management Degree from the Pamantasan ng Lungsod ng Maynila.

## BGEN RUFINO G RAMORAN JR AFP
Trustee

BGEN Ramoran Jr has been serving the AFPSLAI as a member of the Board since November 2017. He currently holds the position of Chief, AFP Finance Center. He is a graduate of Bachelor of Science Degree from the Philippine Military Academy (Class 1989). He also took up Master in National Security Administration from the National Defense University and Leadership Science and Strategic Management at the Tsinghua University both in Beijing, China. He has also undertaken Executive Course on National Security from the National Defense College of the Philippines.

## COL ROY M GALIDO (GSC) PA
Trustee

COL Galido has been elected as a member of the Board since January 2018. He is currently the Chief, System Engineering Office of the Armed Forces of the Philippines. He is a graduate of Bachelor of Science from the Philippine Military Academy (Class 1990) and holds a Master in Management Degree from the Philippine Christian University. He also holds a Master of Science in Information Technology Degree from the University of South Wales and Master's Degree in Public Management Major in Development and Security from the Development Academy of the Philippines. He is also a Graduate-Member of the Institute of Corporate Directors.

## CAPT BRENDO J CASACLANG (GSC) PN
Trustee

CAPT Casaclang has been serving the Association as a Trustee since June 2017. He currently holds the position of Commander, Philippine Navy Finance Center. He is a graduate of Bachelor of Science from the Philippine Military Academy (Class 1993) and holds a Master of International Security Degree from the Massey University in New Zealand.

## COL ALVIN M HATE (MNSA) PAF
Trustee

COL Hate has been elected as a member of the Board since February 2018. He is the Chief, Air Force Finance Center. He is a graduate of Bachelor of Science from the Philippine Military Academy (Class 1995). He also holds a Master in Defense Studies Degree from the University of South Wales in Australia.

## FCMS LITO A TOMPAYOGAN (INF) PA
Trustee

FCMS Tompayogan has been serving the Association as a member of the Board since November 2017. He is currently the First Chief Master Sergeant of the AFP, the highest Non-Commissioned Officer (NCO) rank. He is a graduate of Bachelor of Science in Criminology from the PHINMA – Araullo University in Cabanatuan City, Nueva Ecija.

He is also currently a Trustee of the Armed Forces and Police Mutual Benefit Association, Inc. (AFPMBAI) and AFP Retirement and Separation Benefits System (AFPRSBS).

# CORPORATE & EXECUTIVE OFFICERS

**GEN BENJAMIN R MADRIGAL JR AFP**
Chairman

**MGEN ROMEO D LUSTESTICA AFP (RET)**
Vice Chairman

**MGEN EMERALDO C MAGNAYE AFP (RET)**
President and CEO

**BGEN RODEL MAURO R ALARCON AFP (RET)**
Executive Vice President-General Manager

**ATTY SAMUEL B PADILLA**
Corporate Secretary

**PBGEN ROBERTO L ALIGGAYU (RET)**
Treasurer / SVP for Treasury Department

**MS ROSARIO D SANTOS**
Comptroller / SVP for Comptrollership Department

**MGEN ENRIQUE C REYES AFP (RET)**
SVP for Administration Department

**MS MARILYN G GAHITE**
SVP for Operations Department

# MANAGEMENT TEAM

### OFFICE OF THE CHAIRMAN

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

**MR JONATHAN B FRANCISCO**
Head, Internal Audit Division

**MS LORREN JEAN R VILLAGRACIA**
Officer-In-Charge, Head Office Audit Branch, Internal Audit Division

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

**MS MARIANNE D BONAGUA**
Officer-In-Charge, Information Systems Audit Branch, Internal Audit Division

**MR VIRGILIO R PRION**
Corporate Compliance Officer

**MS HAZEL IVY R MANESE**
Risk Officer

### OFFICE OF THE PRESIDENT & CEO

**MS MARIE ANTOINETTE D DELA CRUZ**
Head, Corporate Affairs Division

**MS PAOLA FLORENCE T BACUNGAN**
Head, Corporate Planning Division

### OFFICE OF THE EVP-GM

**MS MA RIZELLE J PALAD**
Head, Information Systems Division

**MS LANI N BRUNIO**
Head, IT Application Services, Information Systems Division

**MR MYRON C ARCENA**
Head, Managed IT Services, Information Systems Division

**MR EDWARD CEDRICK V MALIHAN**
Head, Infrastructure Services, 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

### TREASURY DEPARTMENT

**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

**MS MA KATHLEEN M VELASCO**
Acting Head, Remedial Asset Management Office

### COMPTROLLERSHIP DEPARTMENT

**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

### ADMINISTRATION DEPARTMENT

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

**MS SARA P CAMBA**
Head, Supply & Property Management Office

**MR EDMUNDO S BUCO**
Officer-In-Charge, General Services Office

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

### OPERATIONS DEPARTMENT

**MS MA EVELYN A CORPUZ**
Area Operations Head, NCR & Luzon

**MS ROFEL O VIVAR**
Area Operations Head, VisMin

**MS MA LEILANI M JAVIER**
Head, Branch Operations Support Services Group

### NCR & LUZON AREA

**MR JOSEPH T MACARILAY**
Head, Aguinaldo Branch

**MR RONALD V MABUYO**
Officer-In-Charge, Assistant Branch Head, Aguinaldo Branch

**MR ARNEL V QUERUBIN**
Head, Crame Branch

**MS MERLITA O CASTRO**
Assistant Branch Head, Crame Branch

**MS MARIA L MARGALLO**
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

**MR LEONARDO D DEDUQUE**
Acting Head, Legazpi Branch

**MS MARY SHENDYLEEN A ABARCA**
Head, Palawan Branch

### VISAYAS & MINDANAO AREA

**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

**MS ANABELLE A MARCABAN**
Head, Pagadian Branch

**MS SARAH L ENRIQUEZ**
Head, Cagayan de Oro Branch

**MS DOLORES T MARCO**
Head, Davao Branch

**MS LUDINA A CALUMBOY**
Head, General Santos Branch

**MS WILMA T ODO**
Head, Cotabato Branch

**MS MA FARAH B SOLLANO**
Head, Butuan Branch

**MS OLIVA M CANSECO**
Officer-In-Charge, Zamboanga Branch

# AUDITED FINANCIAL STATEMENTS

## As at and for the years ended December 31, 2018 and 2017

by Isla Lipana & Co.

AFPSLAI
We value your trust

Authorized by the Bangko Sentral ng Pilipinas
AFPSLAI Building, Capinpin Avenue, Camp General Emilio Aguinaldo
EDSA cor Col Bonny Serrano Road, Quezon City
(632) 911-2032 to 33

***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 2018. 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 2018 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.

| GEN BENJAMIN R MADRIGAL JR AFP | MGEN EMERALDO C MAGNAYE AFP (RET) | MS ROSARIO D SANTOS |
|---|---|---|
| Chairman | President and CEO | Comptroller |

4.24.19

29 APR 2019

**SUBSCRIBED AND SWORN to** before me this ____ day of _____ 2019 at Quezon City, affiants exhibiting to me their Tax Identification No. (TIN):

| Names | TIN |
|---|---|
| GEN BENJAMIN R MADRIGAL JR AFP | 192-142-461 |
| MGEN EMERALDO C MAGNAYE AFP (RET) | 154-950-996 |
| MS ROSARIO D SANTOS | 136-501-583 |

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
APR 30 2019
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Page No 41
Book No VII
Series of 2019

ATTY. SADIRI R. DALIVA
Notary Public
Roll No. 40100
Until December 31, 2019
PTR No. 7447565/01-14-2019/Quezon City
IBP. No. 04574/Lifetime/Tarlac
MCLE VI 007931/April 6, 2018
AFPSLAI Bldg. Camp Aguinaldo, Quezon City

www.afpslai.com.ph

## 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, 2018 and 2017, 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 Bangko Sentral ng Pilipinas (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, 2018 and 2017;
- the consolidated and parent statements of income for the years ended December 31, 2018 and 2017;
- the consolidated and parent statements of comprehensive income for the years ended December 31, 2018 and 2017;
- the consolidated and parent statements of changes in equity for the years ended December 31, 2018 and 2017;
- the consolidated and parent statements of cash flows for the years ended December 31, 2018 and 2017; 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 (PSA). 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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 PSA, 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 8, 2019, Makati City
SEC A.N. (individual) as general auditors 1176-AR-2, Category A; effective until June 20, 2021
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 221-755-698
BIR A.N. 08-000745-77-2018, issued on January 29, 2018; effective until January 28, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
April 1, 2019

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

Statements of Financial Position
December 31, 2018 and 2017
(All amounts in thousands of Philippine Peso)

| | Notes | Consolidated 2018 | Consolidated 2017 | Parent Company 2018 | Parent Company 2017 |
|---|---|---|---|---|---|
| | | ASSETS | | | |
| CASH AND CASH EQUIVALENTS | 2 | 2,050,621 | 8,279,620 | 1,996,598 | 8,255,388 |
| AVAILABLE-FOR-SALE INVESTMENTS | 3 | - | 420,614 | - | 420,614 |
| HELD-TO-MATURITY INVESTMENTS | 4 | - | 11,593,395 | - | 11,593,395 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | 3 | 303,166 | - | 303,166 | - |
| INVESTMENT SECURITIES AT AMORTIZED COST | 4 | 6,178,957 | - | 6,178,957 | - |
| LOANS AND RECEIVABLES, net | 5 | 81,965,293 | 56,257,150 | 81,910,016 | 56,176,876 |
| PROPERTY AND EQUIPMENT, net | 7 | 267,803 | 198,017 | 267,768 | 197,950 |
| INVESTMENT PROPERTIES, net | 8 | 70,035 | 78,068 | 63,796 | 71,178 |
| INVESTMENT IN A SUBSIDIARY | 6 | - | - | 75,000 | 75,000 |
| OTHER ASSETS, net | 10 | 5,208,854 | 4,716,273 | 5,206,013 | 4,713,459 |
| Total assets | | 96,044,729 | 81,543,137 | 96,001,314 | 81,503,860 |
| | | LIABILITIES AND EQUITY | | | |
| DEPOSIT LIABILITIES | 12 | 18,537,241 | 16,039,124 | 18,537,241 | 16,039,124 |
| BILLS PAYABLE | 13 | 6,700,000 | - | 6,700,000 | - |
| ACCRUED INTEREST AND OTHER EXPENSES | | 68,657 | 26,438 | 68,019 | 26,438 |
| RETIREMENT LIABILITY | 9 | 28,046 | 60,220 | 27,166 | 59,787 |
| DIVIDENDS PAYABLE | 11 | 758,456 | 645,747 | 758,456 | 645,747 |
| OTHER LIABILITIES | 14 | 2,123,158 | 2,102,856 | 2,084,188 | 2,063,121 |
| Total liabilities | | 28,215,558 | 18,874,385 | 28,175,070 | 18,834,217 |
| EQUITY ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY | | | | | |
| Members' contributions | 11 | 50,232,503 | 47,424,175 | 50,232,503 | 47,424,175 |
| Surplus reserves | 15 | 9,089,770 | 7,815,445 | 9,089,770 | 7,815,445 |
| Surplus free | | 8,634,254 | 7,528,862 | 8,642,541 | 7,540,323 |
| Accumulated other comprehensive loss | 15 | (137,881) | (109,415) | (138,570) | (110,300) |
| | | 67,818,646 | 62,659,067 | 67,826,244 | 62,669,643 |
| NON-CONTROLLING INTEREST | | 10,525 | 9,685 | - | - |
| Total equity | | 67,829,171 | 62,668,752 | 67,826,244 | 62,669,643 |
| Total liabilities and equity | | 96,044,729 | 81,543,137 | 96,001,314 | 81,503,860 |

(The notes on pages 61 to 121 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, 2018 and 2017
(All amounts in thousands of Philippine Peso)

| | | Consolidated | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | 2018 | 2017 | 2018 | 2017 |
| INTEREST INCOME | | | | | |
| Loans and discount, net | 5 | 13,020,217 | 9,437,458 | 13,014,317 | 9,429,631 |
| Investment in debt securities | 3,4 | 326,009 | 497,234 | 326,009 | 497,234 |
| Cash and cash equivalents and other investments | 2 | 36,295 | 178,921 | 35,629 | 178,854 |
| Sales contract receivables | | 1,592 | 1,416 | 1,592 | 1,416 |
| | | 13,384,113 | 10,115,029 | 13,377,547 | 10,107,135 |
| INTEREST EXPENSE | 12,13 | 834,867 | 453,819 | 834,867 | 453,819 |
| NET INTEREST INCOME | | 12,549,246 | 9,661,210 | 12,542,680 | 9,653,316 |
| PROVISION FOR CREDIT AND IMPAIRMENT LOSSES | 18 | 876,955 | 640,712 | 880,588 | 643,862 |
| NET INTEREST INCOME AFTER IMPAIRMENT LOSSES | | 11,672,291 | 9,020,498 | 11,662,092 | 9,009,454 |
| OTHER (LOSS) INCOME | | | | | |
| Service charge and other fees | | 10,685 | 11,952 | 10,685 | 11,952 |
| Loss on sale of investment securities at amortized cost/ HTM investments | 4 | (402,536) | - | (402,536) | - |
| Miscellaneous | 19 | 20,697 | 27,127 | 20,049 | 28,749 |
| | | (371,154) | 39,079 | (371,802) | 40,701 |
| OPERATING EXPENSES | | | | | |
| Compensation and fringe benefits | | 801,331 | 746,007 | 799,066 | 743,556 |
| Collection fees | | 194,869 | 169,573 | 194,869 | 169,573 |
| Taxes and licenses | | 86,411 | 9,058 | 85,905 | 8,294 |
| Donations and charitable contributions | | 82,377 | 80,225 | 82,377 | 80,225 |
| Rent | 17 | 48,885 | 42,041 | 48,885 | 42,041 |
| Depreciation and amortization | 7,8,10 | 46,466 | 93,765 | 46,433 | 93,727 |
| Advertising and publicity | | 45,779 | 58,613 | 45,774 | 58,604 |
| Security, janitorial and messengerial fees | | 41,489 | 37,089 | 41,489 | 37,089 |
| Management and other professional fees | | 38,822 | 61,371 | 38,822 | 61,371 |
| Power, light and water | | 32,447 | 29,050 | 32,410 | 29,003 |
| Entertainment, amusement and recreation | | 21,863 | 28,018 | 21,333 | 27,583 |
| Staff activities | | 21,052 | 24,303 | 20,957 | 24,208 |
| Miscellaneous | 20 | 234,486 | 170,004 | 232,252 | 167,270 |
| | | 1,696,277 | 1,549,117 | 1,690,572 | 1,542,544 |
| INCOME BEFORE INCOME TAX | | 9,604,860 | 7,510,460 | 9,599,718 | 7,507,611 |
| INCOME TAX EXPENSE | 21 | (22) | 945 | (1,095) | 1,449 |
| NET INCOME FOR THE YEAR | | 9,604,882 | 7,509,515 | 9,600,813 | 7,506,162 |
| Attributable to: | | | | | |
| Members of the Parent Company | | 9,603,987 | 7,508,263 | 9,600,813 | 7,506,162 |
| Non-controlling interest | | 895 | 1,252 | - | - |
| | | 9,604,882 | 7,509,515 | 9,600,813 | 7,506,162 |

(The notes on pages 61 to 121 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, 2018 and 2017
(All amounts in thousands of Philippine Peso)

| | | Consolidated | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | 2018 | 2017 | 2018 | 2017 |
| NET INCOME FOR THE YEAR | | 9,604,882 | 7,509,515 | 9,600,813 | 7,506,162 |
| OTHER COMPREHENSIVE (LOSS) INCOME | | | | | |
| Item that may be subsequently reclassified to profit or loss | | | | | |
| Net change in unrealized loss on available-for-sale investments | 15 | - | (191) | - | (191) |
| Item that will not be subsequently reclassified to profit or loss | | | | | |
| Remeasurement of retirement liability, net | 9,15 | 14,323 | 28,921 | 14,574 | 28,762 |
| Net change in unrealized loss on financial assets at FVOCI | | (42,844) | - | (42,844) | - |
| | | (28,521) | 28,730 | (28,270) | 28,571 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 9,576,361 | 7,538,245 | 9,572,543 | 7,534,733 |
| Attributable to: | | | | | |
| Members of the Parent Company | | 9,576,416 | 7,538,210 | 9,572,543 | 7,534,733 |
| Non-controlling interest | | (55) | 35 | - | - |
| | | 9,576,361 | 7,538,245 | 9,572,543 | 7,534,733 |

(The notes on pages 61 to 121 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, 2018 and 2017
(All amounts in thousands of Philippine Peso)

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | Attributable to members of the Parent Company | | | | | | |
| | Members' contributions (Note 11) | Surplus reserves (Note 15) | Surplus free | Accumulated other comprehensive loss (Note 15) | Total | Non-controlling interest | Total equity |
| **Balances at January 1, 2017** | 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) | (6,829,812) |
| Dividend adjustment | - | - | 13,362 | - | 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 |
| Comprehensive income | | | | | | | |
| Net income for the year | | | 9,603,987 | | 9,603,987 | 895 | 9,604,882 |
| Other comprehensive income | - | - | - | (28,466) | (28,466) | (55) | (28,521) |
| Total comprehensive income for the year | - | - | 9,603,987 | (28,466) | 9,575,521 | 840 | 9,576,361 |
| Transactions with owners | | | | | | | |
| Appropriation of surplus | - | 1,274,325 | (1,274,325) | - | - | - | - |
| Dividends declared | - | - | (7,224,270) | - | (7,224,270) | - | (7,224,270) |
| Capital contributions | 15,305,498 | - | - | - | 15,305,498 | - | 15,305,498 |
| Capital withdrawals | (12,497,170) | - | - | - | (12,497,170) | - | (12,497,170) |
| Total transactions with owners | 2,808,328 | 1,274,325 | (8,498,595) | - | (4,415,942) | - | (4,415,942) |
| **Balances at December 31, 2018** | 50,232,503 | 9,089,770 | 8,634,254 | (137,881) | 67,818,646 | 10,525 | 67,829,171 |

(The notes on pages 61 to 121 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, 2018 and 2017
(All amounts in thousands of Philippine Peso)

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Members' contributions (Note 11) | Surplus reserves (Note 15) | Surplus free | Accumulated other comprehensive loss (Note 15) | Total |
| **Balances at January 1, 2017** | 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 |
| Comprehensive income | | | | | |
| Net income for the year | - | - | 9,600,813 | - | 9,600,813 |
| Other comprehensive income | - | - | - | (28,270) | (28,270) |
| Total comprehensive income for the year | - | - | 9,600,813 | (28,270) | 9,572,543 |
| Transactions with owners | | | | | |
| Appropriation of surplus | - | 1,274,325 | (1,274,325) | - | - |
| Dividends declared | - | - | (7,224,270) | - | (7,224,270) |
| Capital contributions | 15,305,498 | - | - | - | 15,305,498 |
| Capital withdrawals | (12,497,170) | - | - | - | (12,497,170) |
| Total transactions with owners | 2,808,328 | 1,274,325 | (8,498,595) | - | (4,415,942) |
| **Balances at December 31, 2018** | 50,232,503 | 9,089,770 | 8,642,541 | (138,570) | 67,826,244 |

(The notes on pages 61 to 121 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, 2018 and 2017
(All amounts in thousands of Philippine Peso)

| | | Consolidated | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | 2018 | 2017 | 2018 | 2017 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | |
| Cash generated from operations | 24 | (13,528,884) | 3,768,176 | (13,558,424) | 3,757,716 |
| Contributions to retirement plan | 9 | (53,702) | (57,106) | (53,702) | (57,106) |
| Income taxes paid | | (1,299) | 1,297 | (1,223) | 1,297 |
| Net cash (used) generated from operating Activities | | (13,583,885) | 3,712,367 | (13,613,353) | 3,701,907 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | | |
| Proceeds from maturity of held-to-maturity investments | 4 | - | 514,127 | - | 514,127 |
| Acquisitions of: | | | | | |
| Held-to-maturity investments | 4 | - | (3,329,543) | - | (3,329,543) |
| Property and equipment | 7 | (113,326) | (62,714) | (113,326) | (62,676) |
| Investment properties | 8 | - | (379) | - | - |
| Available-for-sale investments | 3 | - | (345,000) | - | (345,000) |
| Proceeds from sale of: | | | | | |
| Investment properties | 8 | 24,177 | 18,087 | 23,854 | 14,788 |
| Available-for-sale investments | 3 | - | 20,200 | - | 20,200 |
| Financial assets at FVOCI | 3 | 70,294 | | 70,294 | - |
| Investment securities at amortized cost | 4 | 4,976,188 | | 4,976,188 | - |
| Property and equipment | 7 | 787 | 508 | 787 | 508 |
| Net cash provided (used) in investing activities | | 4,958,120 | (3,184,714) | 4,957,797 | (3,187,596) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from borrowings | 13 | 38,331,120 | - | 38,331,120 | - |
| Repayment of borrowings | 13 | (31,631,120) | - | (31,631,120) | - |
| Capital contributions from members | | 15,305,498 | 14,405,231 | 15,305,498 | 14,405,231 |
| Capital withdrawals by members | | (12,497,170) | (12,087,291) | (12,497,170) | (12,087,291) |
| Dividends paid | 11 | (7,111,562) | (6,864,790) | (7,111,562) | (6,864,790) |
| Net cash provided (used) in financing activities | | 2,396,766 | (4,546,850) | 2,396,766 | (4,546,850) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (6,228,999) | (4,019,197) | (6,258,790) | (4,032,539) |
| CASH AND CASH EQUIVALENTS | 2 | | | | |
| January 1 | | 8,279,620 | 12,298,817 | 8,255,388 | 12,287,927 |
| December 31 | | 2,050,621 | 8,279,620 | 1,996,598 | 8,255,388 |

(The notes on pages 61 to 121 are integral parts of these financial statements)

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

Notes to the Financial Statements
As at and for the years ended December 31, 2018 and 2017
(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 752 employees as at December 31, 2018 (2017 - 732 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 March 28, 2019 by the Company's Board of Trustees (BOT). There are no material events that occurred subsequent to March 28, 2019 until April 1, 2019.

## 2 Cash and cash equivalents

The account at December 31 consists of:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Short-term investments | 900,000 | 7,750,000 | 900,000 | 7,750,000 |
| Cash in banks | 1,122,939 | 502,596 | 1,068,921 | 478,369 |
| Cash and other cash items | 27,682 | 27,024 | 27,677 | 27,019 |
| | 2,050,621 | 8,279,620 | 1,996,598 | 8,255,388 |

Short-term investments include time deposits, which bear interest at rates ranging from 1.25% to 8.125% (2017 - 1.1% to 4%) 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, 2018 amounts to P36.3 million and P35.6 million, respectively (2017 - P178.9 million; P178.9 million).

## 3 Financial assets at fair value through other comprehensive income (FVOCI)/ Available-for-sale (AFS) investments

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

| | Financial assets at FVOCI* | AFS |
|---|---|---|
| | 2018 | 2017 |
| Corporate bonds | 298,234 | 345,472 |
| Government debt securities | - | 69,720 |
| Equity securities | 3,072 | 2,672 |
| | 301,306 | 417,864 |
| Accrued interest on debt securities | 1,860 | 2,750 |
| | 303,166 | 420,614 |

**New account title under PFRS 9.*

Interest income earned from the investments amounts to P55.3 million for the year ended December 31, 2018 (2017 - P16 million).

Accumulated unrealized loss of the Group and the Parent Company as at December 31, 2018 is P44.7 million (2017 - P1.9 million) (Note 15).

## 4 Investment securities at amortized cost/Held-to-maturity (HTM) investments

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

| | 2018 Investment securities at amortized cost* | 2017 HTM investments |
|---|---|---|
| Government debt securities | | - |
| Face amount | 6,127,321 | 11,048,267 |
| Unamortized (discount) premium, net | (18,480) | 413,711 |
| | 6,108,841 | 11,461,978 |
| Accrued interest | 70,116 | 131,417 |
| | 6,178,957 | 11,593,395 |

**New account title under PFRS 9.*

Interest rates of government debt securities for the year ended December 31, 2018 range from 3.68% to 5.25% (2017 - 2.94% to 5.25%).

Interest income earned from the investments amounts to P270.7 million for the year ended December 31, 2018 (2017 - P481.2 million).

The movements for the years ended December 31 are summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| At January 1 | 11,593,395 | 8,761,067 |
| Additions | - | 3,329,543 |
| Disposals and maturities | (5,378,724) | (514,127) |
| Amortization of discount (premium), net | 25,587 | (7,921) |
| Accrued interest movement | (61,301) | 24,833 |
| At December 31 | 6,178,957 | 11,593,395 |

In 2018, the Association, in accordance with its Contingency Funding Plan, sold securities with aggregate carrying amount of P5.36 billion to generate funds to meet the unexpected high demand for loans from members. The disposal resulted in a loss of P403 million.

*Significant judgment – Classification of investment securities at amortized cost*

The Group follows the guidance of PFRS 9 starting January 1, 2018 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss. In classifying debt securities at amortized cost, the Group evaluates the contractual cash flow characteristics of the asset and considers its business model for managing the assets. The Group determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss. The disposal of securities as discussed above is deemed consistent with the business model of the Group.

Prior to January 1, 2018, the Group followed the guidance of PAS 39 in classifying its financial assets.

## 5 Loans and receivables, net

Details of this account at December 31 follow:

| | Note | Consolidated | | Parent Company | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| Loans and discounts | | | | | |
| Consumption and others | | 85,924,356 | 60,364,363 | 85,869,865 | 60,280,799 |
| Commercial and business | | 1,872,590 | 1,628,350 | 1,872,590 | 1,628,350 |
| Real estate and housing | | 156,923 | 150,404 | 156,923 | 150,404 |
| | | 87,953,869 | 62,143,117 | 87,899,378 | 62,059,553 |
| Unearned discounts | | - | (1,311) | - | (1,311) |
| | | 87,953,869 | 62,141,806 | 87,899,378 | 62,058,242 |
| Other receivables | | | | | |
| Accrued interest receivables | | 1,192,771 | 859,959 | 1,192,278 | 859,530 |
| Accounts receivable | | 106,354 | 118,322 | 105,867 | 117,833 |
| Sales contract receivables | | 12,915 | 14,493 | 12,915 | 14,493 |
| Advances and receivables from officers and employees | | 3,103 | 2,110 | 3,104 | 2,110 |
| Installment sales receivables | | - | 55 | - | 55 |
| | | 1,315,143 | 994,939 | 1,314,164 | 994,021 |
| | | 89,269,012 | 63,136,745 | 89,213,542 | 63,052,263 |
| Allowance for credit losses | 18 | | | | |
| Loans and discounts | | (7,197,580) | (6,762,178) | (7,197,387) | (6,757,970) |
| Other receivables | | (106,139) | (117,417) | (106,139) | (117,417) |
| | | (7,303,719) | (6,879,595) | (7,303,526) | (6,875,387) |
| | | 81,965,293 | 56,257,150 | 81,910,016 | 56,176,876 |

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

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Salary loans | 46,045,985 | 33,160,944 | 46,045,985 | 33,160,944 |
| Multipurpose loans | 16,951,969 | 8,108,414 | 16,951,969 | 8,108,414 |
| Pension salary loans | 16,103,675 | 15,681,981 | 16,103,675 | 15,681,981 |
| Others | 6,822,727 | 3,413,024 | 6,768,236 | 3,329,460 |
| | 85,924,356 | 60,364,363 | 85,869,865 | 60,280,799 |

Interest on loans and discounts range from 6.75% to 28.62% for the years ended December 31, 2018 and 2017.

Interest income from loans and discounts of the Group and Parent Company for the year ended December 31, 2018 amounts to P13 billion and P13 billion, respectively (2017 - P9.44 billion; P9.43 billion).

*Critical accounting estimate - Measurement of allowance for credit losses*

The Group follows the guidelines of the BSP to measure allowance for credit losses (ACL). To measure the ACL, loans are evaluated on an individual or collective basis. The Group follows the prescribed loss percentage of the BSP for loans that are subject to individual assessment. Loans that are collectively assessed pertains to the remaining loan portfolio which are segmented in groups with similar credit characteristics and operational requirements. It is impracticable however, to disclose with sufficient reliability the possible effects of sensitivities surrounding the calculation of loan loss allowance.

Prior to January 1, 2018, the Group has also applied the guidelines of the BSP in the estimation of credit losses for loans and receivables.

The analysis of movements in allowance for credit and impairment losses are disclosed in Note 18. The detailed accounting policy with respect to the calculation of credit losses is disclosed in Note 28.6. Likewise, information on the credit quality of loans is presented in Note 27.1.1.

*BSP Reporting*

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

*As to collateral (amounts exclusive of unearned discounts and allowance for credit losses)*

| | Consolidated | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Amount | % | Amount | % |
| Secured loans | | | | |
| Deposit hold-out | 1,841,238 | 2.1 | 1,589,409 | 2.6 |
| Real estate and chattel | 757,441 | 0.9 | 406,119 | 0.7 |
| | 2,598,679 | 3.0 | 1,995,528 | 3.3 |
| Unsecured loans | 85,355,190 | 97.0 | 60,147,589 | 96.7 |
| | 87,953,869 | 100.0 | 62,143,117 | 100.0 |

| | Parent Company | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Amount | % | Amount | % |
| Secured loans | | | | |
| Deposit hold-out | 1,841,238 | 2.1 | 1,589,409 | 2.6 |
| Real estate and chattel | 702,950 | 0.8 | 321,327 | 0.5 |
| | 2,544,188 | 2.9 | 1,910,736 | 3.1 |
| Unsecured loans | 85,355,190 | 97.1 | 60,148,817 | 96.9 |
| | 87,899,378 | 100.0 | 62,059,553 | 100.0 |

*As to industry concentration (amounts exclusive of unearned discounts and allowance for credit losses)*

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

| | Consolidated | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | % | 2017 | % | 2018 | % | 2017 | % |
| Community, social and personal activities | 85,924,356 | 97.69 | 60,364,363 | 97.14 | 85,869,865 | 97.69 | 60,280,799 | 97.14 |
| Real estate and chattel | 156,923 | 0.18 | 150,404 | 0.24 | 156,923 | 0.18 | 150,404 | 0.24 |
| Others | 1,872,590 | 2.13 | 1,628,350 | 2.62 | 1,872,590 | 2.13 | 1,628,350 | 2.62 |
| | 87,953,869 | 100.00 | 62,143,117 | 100.00 | 87,899,378 | 100.00 | 62,059,553 | 100.00 |

*Past due loans*

Past due loans of the Parent Company are as follows:

| | 2018 | 2017 |
|---|---|---|
| Past due loans | | |
| Secured | 84,010 | 54,438 |
| Unsecured | 7,315,956 | 5,942,582 |
| | 7,399,966 | 5,997,020 |
| Allowance | (7,399,966) | (5,539,698) |
| | - | 457,322 |

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 dates, in which case, the total outstanding balance is considered as past due.

In 2017, the Association obtained a concession from 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, the accounts will be classified as past due loans with corresponding set-up of provision for credit losses.

## 6 Investment in a subsidiary

This account represents investment in shares of stock of CFC (Note 1) carried at cost in the separate financial statements.

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

| | 2018 | 2017 |
|---|---|---|
| Total assets | 122,623 | 120,229 |
| Total equity | 120,959 | 118,883 |
| Net income | 2,270 | 6,664 |

On April 7, 2017, the stockholders of CFC ratified the decision of its Board of Directors shortening the corporate life of CFC up to December 31, 2019.

In view of the shortening of CFC's corporate life, CFC's financial statements as at and for the years ended December 31, 2018 and 2017 are prepared using acceptable alternative basis of accounting. CFC's management has made its best estimates and judgments with regard to the measurement of CFC's assets and liabilities, giving due consideration to available facts and circumstances.

## 7 Property and equipment, net

This account at December 31 consists of:

Consolidated

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings, Condominiums and Improvements | Furniture, Fixtures and Equipment | Leasehold Improvements | Construction in progress | Total |
| Cost | | | | | | |
| January 1, 2018 | 61,492 | 301,072 | 422,964 | 107,027 | 22,165 | 914,720 |
| Additions | - | 4,365 | 74,605 | 5,096 | 29,260 | 113,326 |
| Disposals | - | - | (17,498) | - | - | (17,498) |
| December 31, 2018 | 61,492 | 305,437 | 480,071 | 112,123 | 51,425 | 1,010,548 |
| Accumulated depreciation | | | | | | |
| January 1, 2018 | - | 254,312 | 345,866 | 99,392 | - | 699,570 |
| Depreciation | - | 8,824 | 29,839 | 4,090 | - | 42,753 |
| Disposals | - | - | (16,711) | - | - | (16,711) |
| December 31, 2018 | - | 263,136 | 358,994 | 103,482 | - | 725,612 |
| Allowance for impairment losses (Note 18) | 8,702 | 8,431 | - | - | - | 17,133 |
| Net book value December 31, 2018 | 52,790 | 33,870 | 121,077 | 8,641 | 51,425 | 267,803 |

| | 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 18) | 8,702 | 8,431 | - | - | - | 17,133 |
| Net book value December 31, 2017 | 52,790 | 38,329 | 77,098 | 7,635 | 22,165 | 198,017 |

Parent Company

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings, Condominiums and Improvements | Furniture, Fixtures and Equipment | Leasehold Improvements | Construction in progress | Total |
| Cost | | | | | | |
| January 1, 2018 | 61,492 | 299,602 | 421,767 | 106,249 | 22,164 | 911,274 |
| Additions | - | 4,365 | 74,605 | 5,096 | 29,260 | 113,326 |
| Disposals | - | - | (17,498) | - | - | (17,498) |
| December 31, 2018 | 61,492 | 303,967 | 478,874 | 111,345 | 51,424 | 1,007,102 |
| Accumulated depreciation | | | | | | |
| January 1, 2018 | - | 252,843 | 344,735 | 98,613 | - | 696,191 |
| Depreciation | - | 8,824 | 29,808 | 4,089 | - | 42,721 |
| Disposals | - | - | (16,711) | - | - | (16,711) |
| December 31, 2018 | - | 261,667 | 357,832 | 102,702 | - | 722,201 |
| Allowance for impairment losses (Note 18) | 8,702 | 8,431 | - | - | - | 17,133 |
| Net book value, December 31, 2018 | 52,790 | 33,869 | 121,042 | 8,643 | 51,424 | 267,768 |

| | 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 | - | 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 18) | 8,702 | 8,431 | - | - | - | 17,133 |
| Net book value, December 31, 2017 | 52,790 | 38,328 | 77,032 | 7,636 | 22,164 | 197,950 |

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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Proceeds | 787 | 508 | 787 | 508 |
| Net book value | (787) | (303) | (787) | (303) |
| Gain on disposal | - | 205 | - | 205 |

As at December 31, 2018 and 2017, the gross carrying amount of fully depreciated property and equipment that are still in use by the Parent Company amounts to P557.3 million and P481.9 million, respectively.

## 8 Investment properties, net

This account at December 31 consists of:

Consolidated

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Land | Buildings and improvements | Total | Land | Buildings and improvements | Total |
| Cost | | | | | | |
| January 1 | 240,020 | 22,691 | 262,711 | 266,486 | 24,313 | 290,799 |
| Additions | - | 1,380 | 1,380 | 379 | - | 379 |
| Disposals | (22,387) | (327) | (22,714) | (26,845) | (1,622) | (28,467) |
| December 31 | 217,633 | 23,744 | 241,377 | 240,020 | 22,691 | 262,711 |
| Accumulated depreciation | | | | | | |
| January 1 | - | 10,925 | 10,925 | - | 9,296 | 9,296 |
| Depreciation | - | 1,248 | 1,248 | - | 1,629 | 1,629 |
| Disposals | - | - | - | - | - | - |
| December 31 | - | 12,173 | 12,173 | - | 10,925 | 10,925 |
| Allowance for impairment losses (Note 18) | 158,109 | 1,060 | 159,169 | 172,658 | 1,060 | 173,718 |
| Net book value, December 31 | 59,524 | 10,511 | 70,035 | 67,362 | 10,706 | 78,068 |

Parent Company

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Land | Buildings and improvements | Total | Land | Buildings and improvements | Total |
| Cost | | | | | | |
| January 1 | 236,274 | 19,548 | 255,822 | 260,809 | 19,548 | 280,357 |
| Additions | - | 1,380 | 1,380 | - | - | - |
| Disposals | (22,064) | - | (22,064) | (24,535) | - | (24,535) |
| December 31 | 214,210 | 20,928 | 235,138 | 236,274 | 19,548 | 255,822 |
| Accumulated depreciation | | | | | | |
| January 1 | - | 10,926 | 10,926 | - | 9,297 | 9,297 |
| Depreciation | - | 1,247 | 1,247 | - | 1,629 | 1,629 |
| Disposals | - | - | - | - | - | - |
| December 31 | - | 12,173 | 12,173 | - | 10,926 | 10,926 |
| Allowance for impairment losses (Note 18) | 158,109 | 1,060 | 159,169 | 172,658 | 1,060 | 173,718 |
| Net book value, December 31 | 56,101 | 7,695 | 63,796 | 63,616 | 7,562 | 71,178 |

As at December 31, 2018, investment properties have aggregate fair value calculated using level 2 fair value technique amounting to P196 million (2017 - P288 million) for the Group and P182 million (2017 - P275 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Proceeds | 24,177 | 18,087 | 23,854 | 14,788 |
| Net book value | (22,387) | (28,467) | (22,064) | (24,535) |
| Gain (loss) on disposal | 1,790 | (10,380) | 1,790 | (9,747) |

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 Parent are as follows:

| | 2018 | 2017 |
|---|---|---|
| Rent income from investment properties | 1,621 | 753 |
| Direct operating expenses for investment properties generating rental income | (11) | (23) |
| Direct operating expenses for investment properties not generating rental income | (1,070) | (1,705) |

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 of 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Present value of obligation | 623,034 | 627,542 | 622,154 | 627,109 |
| Fair value of plan assets | (594,988) | (567,322) | (594,988) | (567,322) |
| Retirement liability recognized in the statements of financial position | 28,046 | 60,220 | 27,166 | 59,787 |

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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| *Recognized in profit or loss* | | | | |
| Current service cost | 34,373 | 32,569 | 34,309 | 32,547 |
| Net interest cost | 3,374 | 4,699 | 3,348 | 4,620 |
| Past service cost | - | 32,168 | - | 32,168 |
| | 37,747 | 69,436 | 37,657 | 69,335 |

The components of remeasurements recognized in other comprehensive income follow:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| *Remeasurements recognized in other comprehensive income* | | | | |
| Changes in financial assumption | 33,654 | 27,762 | 33,551 | 27,697 |
| Experience adjustments | (9,528) | 9,533 | (9,174) | 9,439 |
| Return on plan assets | (9,803) | (8,374) | (9,803) | (8,374) |
| | 14,323 | 28,921 | 14,574 | 28,762 |

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

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| At January 1 | 627,542 | 600,515 | 627,109 | 599,959 |
| Current service cost | 34,373 | 32,569 | 34,309 | 32,547 |
| Interest cost | 35,144 | 30,881 | 35,118 | 30,802 |
| Past service cost | - | 32,168 | - | 32,168 |
| Benefits paid | (48,003) | (29,419) | (48,003) | (29,419) |
| Benefits paid directly by the Association | (2,002) | (1,811) | (2,002) | (1,811) |
| Remeasurements | (24,020) | (37,361) | (24,377) | (37,137) |
| At December 31 | 623,034 | 627,542 | 622,154 | 627,109 |

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

| | 2018 | 2017 |
|---|---|---|
| At January 1 | 567,322 | 523,638 |
| Interest income | 31,770 | 26,182 |
| Contributions | 53,702 | 55,295 |
| Benefits paid | (48,003) | (29,419) |
| Remeasurement - return on plan assets | (9,803) | (8,374) |
| At December 31 | 594,988 | 567,322 |

The Subsidiary's retirement plan is unfunded as at December 31, 2018 and 2017.

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Government securities | 521,103 | 87.58 | 336,655 | 59.34 |
| Cash and cash equivalents | 20,009 | 3.36 | 176,946 | 31.19 |
| Others | 53,876 | 9.06 | 53,721 | 9.47 |
| | 594,988 | 100.00 | 567,322 | 100.00 |

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, 2018 and 2017 approximates 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, 2018 and 2017.

Expected contributions to the retirement plan of the Parent Company for the year ending December 31, 2019 amount to P66.6 million.

The principal actuarial assumptions used were as follows:

| | Parent Company | | Subsidiary | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Discount rate | 7.40% | 5.60% | 7.20% | 5.91% |
| Future salary increases | 6.00% | 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 Bloomberg Valuation (BVAL) 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:

| | 2018 | 2017 |
|---|---|---|
| Less than a year | 63,941 | 50,275 |
| Between 1 to 5 years | 351,911 | 338,691 |
| Between 5 to 10 years | 436,827 | 402,042 |
| Between 10 to 15 years | 397,666 | 342,711 |
| More than 15 years | 1,224,570 | 827,480 |

*Critical accounting estimate - Calculation of defined benefit obligation*

The calculation of defined benefit obligation using the projected unit credit method is a complex process that involves certain assumptions as discussed above. Management has therefore, engaged the services of the independent firm of actuaries to determine the Group's liability under the retirement plan. The amount of defined benefit obligation can fluctuate based on the movements or changes in the assumptions.

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, 2018 | | | |
| Discount rate | +/-1% | Decrease by 6.0% | Increase by 7.0% |
| Future salary increases | +/-1% | Increase by 7.0% | Decrease by 6.0% |
| 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% |

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, 2018 | | | |
| Discount rate | +/-1% | Decrease by 18% | Increase by 18% |
| Future salary increases | +/-1% | Increase by 17% | Decrease by 17% |
| December 31, 2017 | | | |
| Discount rate | +/-1% | Decrease by 18% | Increase by 18% |
| Future salary increases | +/-1% | Increase by 17% | Decrease by 17% |

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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Advances to members | 4,975,687 | 4,658,989 | 4,975,687 | 4,658,989 |
| Software cost, net | 7,167 | 7,289 | 7,167 | 7,289 |
| Stationeries and other unused supplies | 42,419 | 17,364 | 42,419 | 17,364 |
| Deferred tax assets, net (Note 21) | 9,937 | 9,136 | 9,103 | 7,456 |
| Prepaid expenses | 165,030 | 11,484 | 165,139 | 11,484 |
| Miscellaneous | 10,601 | 13,998 | 8,485 | 12,864 |
| | 5,210,841 | 4,718,260 | 5,208,000 | 4,715,446 |
| Allowance for impairment loss (Note 18) | (1,987) | (1,987) | (1,987) | (1,987) |
| | 5,208,854 | 4,716,273 | 5,206,013 | 4,713,459 |

Advances to members pertain to cash advances to members to be settled against future dividends. Management has assessed that future dividends due to members are adequate to cover the advanced amounts.

Miscellaneous assets include refundable security deposits and others.

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

| | 2018 | 2017 |
|---|---|---|
| At January 1 | 7,289 | 47,974 |
| Additions | 2,343 | 5,797 |
| Amortization | (2,465) | (46,482) |
| At December 31 | 7,167 | 7,289 |

## 11 Members' contributions

The account represents contributions from members of the Parent Company comprising fixed and withdrawable capital which are both payable on demand. These contributions are considered as puttable instruments which qualify as equity instruments (Note 28.11).

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 2018, the BOT declared dividends at a rate of about 16% or P7.2 billion on members' contributions for members as at December 31, 2017 (2017 - 16% or P6.8 billion for members as at December 31, 2016), of which P758 million remains unpaid.

On February 28, 2019, the Board of Trustees approved dividends at a rate of 17% or P8.10 billion for members as at December 31, 2018. The BSP approval was received on April 2, 2019.

## 12 Deposit liabilities

This account consists of savings deposit from members of the Parent Company amounting to P18.5 billion as at December 31, 2018 (2017 - P16 billion). The Subsidiary has no deposit liabilities or any liability of similar nature as at December 31, 2018 and 2017.

In 2018, deposit liabilities carry annual interest rate ranging from 3% to 7% (2017 - 3%). Interest expense on deposit liabilities for the year ended December 31, 2018 amounts to P531.6 million (2017 - P453.8 million).

## 13 Bills payable

In 2018, the Association availed of borrowings from several local universal banks to augment its funding sources as follows:

- P24.275 billion unsecured, short term loan facility with interest rates ranging from 3.75% to 7.00%, payable in 15 to 180 days, of which P19.275 billion was already settled as of December 31, 2018; and

- P13.125 billion secured loans with interest rates ranging from 3.39% to 6.90%, payable in 30 to 180 days, of which P11.425 billion has been paid as of December 31, 2018; The balance of P1.7 billion is secured by government securities of equivalent value.

Total interest expense amounting to P303.3 million was incurred and paid in 2018.

## 14 Other liabilities

This account at December 31 consists of:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Accounts payable | 1,575,518 | 1,232,730 | 1,575,168 | 1,232,119 |
| Payable to members | 260,102 | 701,984 | 260,102 | 701,984 |
| Insurance payable | 77,390 | 68,521 | 77,390 | 68,521 |
| Taxes payable | 8,216 | 19,001 | 8,061 | 18,882 |
| Documentary stamp tax payable | 1,564 | 1,250 | 1,680 | 1,250 |
| Unearned income and other deferred credits | 4,155 | 5,495 | 4,057 | 5,376 |
| Miscellaneous | 196,213 | 73,875 | 157,730 | 34,989 |
| | 2,123,158 | 2,102,856 | 2,084,188 | 2,063,121 |

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

Miscellaneous liabilities consist of retention payable and other payables.

## 15 Equity

*Surplus Reserves*

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

| | 2018 | 2017 |
|---|---|---|
| Withdrawable share reserve | 1,004,650 | 948,484 |
| Building fund reserve | 3,363,077 | 3,363,077 |
| Ledger discrepancies reserve | 175,854 | 175,854 |
| Contingency reserve | 4,546,189 | 3,328,030 |
| | 9,089,770 | 7,815,445 |

*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 million (2017 - P3.4 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) as reserve, in case there are unbooked capital adjustments required by the BSP
b) for accrued interest and other income not yet received but already recorded by the Parent Company;
c) for valuation reserve for Centennial Savings Bank (CSB) assets transferred to Parent Company; and
d) 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 2018, the BOT approved the appropriation of its surplus free amounting to P1,274.3 million (2017 - P222.2 million).

*Accumulated other comprehensive loss*

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

| | Note | Consolidated 2018 | Consolidated 2017 | Parent Company 2018 | Parent Company 2017 |
|---|---|---|---|---|---|
| Fair value reserve on available-for-sale securities | | | | | |
| At January 1 | | (1,876) | (1,685) | (1,876) | (1,685) |
| Net unrealized fair value loss | 3 | (42,844) | (191) | (42,844) | (191) |
| At December 31 | | (44,720) | (1,876) | (44,720) | (1,876) |
| Remeasurement of retirement liability | | | | | |
| At January 1 | | (107,289) | (136,210) | (108,424) | (137,186) |
| Remeasurement | | 14,323 | 28,921 | 14,574 | 28,762 |
| At December 31 | | (92,966) | (107,289) | (93,850) | (108,424) |
| | | (137,686) | (109,165) | (138,570) | (110,300) |
| Attributable to: | | | | | |
| Non-controlling interest | | 195 | 250 | - | - |
| Members of the Parent Company | | (137,881) | (109,415) | (138,570) | (110,300) |

## 16 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

| | 2018 Current | 2018 Non-current | 2018 Total |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | 2,050,621 | - | 2,050,621 |
| Financial assets at FVOCI | 1,860 | 301,306 | 303,166 |
| Investment securities at amortized cost | 70,116 | 6,108,841 | 6,178,957 |
| Loans and receivables | | | |
| Loans and discount | 6,961,364 | 80,992,505 | 87,953,869 |
| Other receivables | 1,305,348 | 9,794 | 1,315,142 |
| | 10,389,309 | 87,412,446 | 97,801,755 |
| Liabilities | | | |
| Deposit liabilities | 18,537,241 | - | 18,537,241 |
| Bills payable | 6,700,000 | - | 6,700,000 |
| Accrued expenses and other expenses | 68,657 | - | 68,657 |
| Other liabilities | 2,123,157 | - | 2,123,157 |
| | 27,429,055 | - | 27,429,055 |

| | 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 |

Parent Company

| | 2018 | | |
|---|---|---|---|
| | Current | Non-current | Total |
| Assets | | | |
| Cash and cash equivalents | 1,996,598 | - | 1,996,598 |
| AFS investments | 1,860 | 301,306 | 303,166 |
| HTM investments | 70,116 | 6,108,841 | 6,178,957 |
| Loans and receivables | | | |
| Loans and discount | 6,953,650 | 80,945,728 | 87,899,378 |
| Other receivables | 1,304,856 | 9,307 | 1,314,163 |
| | 10,327,080 | 87,365,182 | 97,692,262 |
| Liabilities | | | |
| Deposit liabilities | 18,537,241 | - | 18,537,241 |
| Bills payable | 6,700,000 | - | 6,700,000 |
| Accrued expenses and other expenses | 68,019 | - | 68,019 |
| Other liabilities | 2,084,422 | - | 2,084,422 |
| | 27,389,682 | - | 27,389,682 |

| | 2017 | | |
|---|---|---|---|
| | Current | Non-current | Total |
| Assets | | | |
| Cash and cash equivalents | 8,255,388 | - | 8,255,388 |
| Financial assets at FVOCI | - | 420,614 | 420,614 |
| Investment securities at amortized cost | 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 |

## 17 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 comprehensive income amounted to P48.9 million and P42.0 million in 2018 and 2017, 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:

| | 2018 | 2017 |
|---|---|---|
| Within one year | 11,400 | 8,701 |
| After one year but not more than five years | 13,237 | 9,693 |
| More than five years | 1,912 | 2,692 |
| | 26,549 | 21,086 |

## 18 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, 2017 | 6,102,740 | 185,786 | 147,472 | 17,133 | 1,987 | 6,455,118 |
| Provision for credit and impairment losses | 663,100 | - | 6,855 | - | - | 669,955 |
| Reversal of provision for credit and 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 |
| Provision for credit and impairment losses | 909,834 | - | 4,181 | - | - | 914,015 |
| Reversal of provision for credit an impairment losses | (7,129) | (14,549) | (15,382) | - | - | (37,060) |
| Write-offs | (467,303) | - | (77) | - | - | (467,380) |
| December 31, 2018 | 7,197,580 | 159,169 | 106,139 | 17,133 | 1,987 | 7,482,008 |

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, 2017 | 6,095,406 | 185,786 | 124,051 | 17,133 | 1,987 | 6,424,363 |
| Provision for credit and impairment losses | 663,100 | - | 6,855 | - | - | 669,955 |
| Reversal of provision for credit and 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 |
| Provision for credit and impairment losses | 909,834 | - | 4,181 | - | - | 914,015 |
| Reversal of provision for credit and impairment losses | (3,496) | (14,549) | (15,382) | - | - | (33,427) |
| Write-off of impairment losses | (466,921) | - | (77) | - | - | (466,998) |
| December 31, 2018 | 7,197,387 | 159,169 | 106,139 | 17,133 | 1,987 | 7,481,815 |

## 19 Miscellaneous income

This account for the years ended December 31 consists of:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Recovery on charged-off assets | 25,882 | 31,142 | 25,874 | 34,286 |
| Rental income | 1,621 | 753 | 1,621 | 753 |
| Gains (losses) on sale of assets | 1,790 | (10,175) | 1,790 | (9,542) |
| Others | (8,596) | 5,407 | (9,236) | 3,252 |
| | 20,697 | 27,127 | 20,049 | 28,749 |

Other income pertains to penalty charges, storage fees and miscellaneous income from activities of Centennial Savings Bank (former subsidiary) that was absorbed by the Parent Company.

## 20 Miscellaneous expense

This account for the years ended December 31 consists of:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Commissions | 77,231 | 32,750 | 77,231 | 32,750 |
| Software maintenance | 39,933 | 34,777 | 39,933 | 34,777 |
| Stationeries and supplies | 28,397 | 23,371 | 28,334 | 23,291 |
| Traveling, fuel and lubricants | 24,766 | 20,838 | 24,714 | 20,770 |
| Postage, telephone, cable and telegram | 15,457 | 15,239 | 15,395 | 15,170 |
| Repairs and maintenance | 11,422 | 8,086 | 11,415 | 8,073 |
| Freight | 5,874 | 7,629 | 5,874 | 7,629 |
| Meetings and conferences | 5,228 | 4,796 | 5,171 | 4,703 |
| Insurance | 1,751 | 1,463 | 1,750 | 1,444 |
| Litigation/Asset acquired expense | 1,593 | 3,308 | 1,272 | 2,954 |
| Membership fees and dues | 846 | 853 | 810 | 817 |
| Others | 21,990 | 16,894 | 20,353 | 14,892 |
| | 234,488 | 170,004 | 232,252 | 167,270 |

## 21 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Current | 671 | 2,779 | 551 | 2,608 |
| Deferred | (693) | (1,834) | (1,646) | (1,159) |
| | (22) | 945 | (1,095) | 1,449 |

The activities not covered in the exemptions under R.A. No. 8367 pertain to the activities of Centennial Savings Bank.

The components of the Group and the Parent Company's recognized deferred tax assets, net follow:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Deferred tax assets | | | | |
| Allowance for credit and losses | 9,161 | 8,718 | 9,103 | 7,456 |
| Retirement asset | 264 | 130 | - | - |
| Net operating loss carryover (NOLCO) | 715 | 1,720 | - | - |
| Excess of minimum corporate income tax (MCIT) over regular income tax (RIT) | 171 | 171 | - | - |
| | 10,311 | 10,739 | 9,103 | 7,456 |
| Deferred tax liabilities | | | | |
| Unrealized gain on foreclosure of collateral | (374) | (1,603) | - | - |
| | (374) | (1,603) | - | - |
| | 9,937 | 9,136 | 9,103 | 7,456 |

The Subsidiary did not recognize deferred tax assets from NOLCO amounting to P4.6 million (2017 - P5.3 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Statutory income tax | 2,880,918 | 2,254,148 | 2,879,915 | 2,252,283 |
| Tax impact of: | | | | |
| Non-deductible expenses | 150 | 118 | - | - |
| Income subjected to lower tax rate | (200) | (20) | - | - |
| Movement in unrecognized DTA | 121 | (2,466) | - | - |
| Non-taxable income | (2,881,011) | (2,250,835) | (2,881,010) | (2,250,834) |
| Effective income tax expense | (22) | 945 | (1,095) | 1,449 |

## 22 Related party transactions

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

Consolidated

| | 2018 | 2017 | Description |
|---|---|---|---|
| Salaries and other short-term benefits | | | |
| Key management personnel and trustees | | | |
| Salaries | 12,910 | 12,301 | Compensation of key management personnel, which are also decision makers of the Group and the Parent Company |
| Other employee benefits | 33,988 | 30,977 | |
| | 46,898 | 43,278 | |

Parent Company

| | 2018 | 2017 | Description |
|---|---|---|---|
| Salaries and other short-term benefits | | | |
| Key management personnel and trustees | | | |
| Salaries and wages | 12,366 | 11,821 | Compensation of key management personnel, which are also decision makers of the Group and the Parent Company |
| Other allowances and benefits | 32,673 | 29,853 | |
| | 45,039 | 41,674 | |

Loans receivable from members of the Parent Company amounts to P62,143,117 (2017 - P62,059,553) (Note 5).

Deposit liabilities from members of the Parent Company amounts to P18,537,241 (2017 - P16,039,124) (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:

| | 2018 | 2017 |
|---|---|---|
| Total outstanding DOSRI loans (in millions) | 12.30 | 15.23 |
| Percent of DOSRI loans to total loans | 0.00% | 0.00% |
| Percent of unsecured DOSRI loans to total DOSRI loans | 96.11% | 99.57% |
| Percent of past due or NPL DOSRI loans to total DOSRI loans | 0.00% | 0.00% |

No dividend income was declared by the Subsidiary in 2018 (2017 - P2.3 million).

## 23 Basic quantitative indicators of financial performance

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

| | 2018 | 2017 |
|---|---|---|
| Return on average equity | 14.71% | 12.27% |
| Return on average assets | 10.82% | 9.53% |
| Net interest margin | 15.04% | 15.05% |

## 24 Cash generated from operations

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

| | | Consolidated | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | 2018 | 2017 | 2018 | 2017 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | |
| Income before income tax | | 9,604,860 | 7,510,460 | 9,599,718 | 7,507,611 |
| Adjustments for: | | | | | |
| Interest income | | (13,382,521) | (10,115,029) | (13,377,547) | (10,105,719) |
| Interest received | | 13,086,315 | 10,080,547 | 13,081,404 | 10,080,910 |
| Interest expense | | 834,867 | 453,819 | 834,867 | 453,819 |
| Interest paid | | (839,188) | (444,763) | (839,188) | (444,763) |
| Depreciation and amortization | 7,8,10 | 46,464 | 93,765 | 46,433 | 93,727 |
| Retirement expense | 9 | 35,745 | 69,436 | 35,655 | 69,335 |
| Provision for credit and impairment losses | 18 | 914,015 | 640,712 | 914,015 | 643,862 |
| Loss from assets sold, net | 19 | 400,746 | 10,175 | 400,746 | 9,542 |
| Changes in operating assets and liabilities: | | | | | |
| (Increase) decrease in assets: | | | | | |
| Loans and receivables | | (26,305,277) | (6,676,072) | (26,330,336) | (6,697,896) |
| Other assets | | (490,497) | (429,545) | (490,501) | (427,868) |
| Increase (decrease) in liabilities: | | | | | |
| Deposit liabilities | | 2,502,438 | 2,245,617 | 2,502,438 | 2,245,616 |
| Accrued interest and other expenses | | 42,219 | 9,056 | 41,581 | 9,056 |
| Other liabilities | | 20,930 | 319,998 | 22,291 | 320,484 |
| Cash (used in) generated from operations | | (13,58,884) | 3,768,176 | (13,558,424) | 3,757,716 |

## 25 Contingent liabilities

As at December 31, 2018 and 2017, 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.

## 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.

a) Calculation of allowance for credit losses (Notes 5)
b) Classification of investment securities at amortized cost (Note 4)
c) Retirement obligation (Note 9)

## 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

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 2,022,939 | 8,252,596 |
| Financial assets at FVOCI/ AFS - debt securities | 300,094 | 417,942 |
| Investment securities at amortised cost/ HTM investments | 6,178,957 | 11,593,395 |
| Loans and receivables | 89,269,012 | 63,138,056 |
| | 97,771,002 | 83,401,989 |

Parent Company

| | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 1,968,921 | 8,228,369 |
| Financial assets at FVOCI/ AFS - debt securities | 300,094 | 417,942 |
| Investment securities at amortised cost/ HTM investments | 6,178,957 | 11,593,395 |
| Loans and receivables | 89,213,542 | 63,053,574 |
| | 97,661,514 | 83,293,280 |

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:

- 91.6% (2017 - 88.71%) of the loans and receivables portfolio fully performing;
- The Group adopts a stringent selection process upon granting of loans and receivables; and
- 100% (2017 - 100%) investments in debt securities are in the form of 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

| | 2018 | | | |
|---|---|---|---|---|
| | Loans and Receivables | Loans and Advances to Banks and Others | Investment Securities | Total |
| Community, social and personal activities | 85,924,356 | - | - | 85,924,356 |
| Government | - | - | 6,479,051 | 6,479,051 |
| Financial intermediaries | - | 2,022,939 | - | 2,022,939 |
| Real estate | 3,187,733 | - | - | 3,187,733 |
| Others | 156,923 | - | - | 156,923 |
| | 89,269,012 | 2,022,939 | 6,479,051 | 97,771,002 |
| Less: | | | | |
| Unearned discount | - | - | - | - |
| Allowance for credit and impairment losses | 7,303,719 | - | - | 7,303,719 |
| | 81,965,293 | 2,022,939 | 6,479,051 | 90,467,283 |

| | 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 |

Parent Company

| | 2018 | | | |
|---|---|---|---|---|
| | Loans and Receivables | Loans and Advances to Banks and Others | Investment Securities | Total |
| Community, social and personal activities | 85,869,865 | - | - | 85,869,865 |
| Government | - | - | 6,479,051 | 6,479,051 |
| Financial intermediaries | - | 1,968,921 | - | 1,968,921 |
| Real estate | 156,923 | - | - | 156,923 |
| Others | 3,186,754 | - | - | 3,186,754 |
| | 89,213,542 | 1,968,921 | 6,479,051 | 97,661,514 |
| Less: | | | | |
| Unearned discount | - | - | - | - |
| Allowance for credit and impairment losses | 7,303,526 | - | - | 7,303,526 |
| | 81,910,016 | 1,968,921 | 6,479,051 | 90,357,988 |

| | 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 |

***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

| PFRS 9 | 2018 Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Investment securities | | | | |
| Financial assets at FVOCI | | | | |
| Debt securities | 300,094 | - | - | 300,094 |
| Financial assets at amortised cost | 6,178,957 | - | - | 6,178,957 |
| Loans and receivables | | | | |
| Loans and discounts | | | | |
| Consumption and others | 78,573,296 | 1,162,014 | 6,189,046 | 85,924,356 |
| Commercial and business | 1,848,218 | - | 24,372 | 1,872,590 |
| Real estate and housing | 135,278 | 113 | 21,532 | 156,923 |
| Other receivables | 1,196,292 | 18,606 | 100,245 | 1,315,143 |
| Loans and advances to banks and others | | | | |
| Cash and cash equivalents (excluding cash on hand) | 2,022,939 | - | - | 2,022,939 |
| | 90,255,074 | 1,180,733 | 6,335,195 | 97,771,002 |
| Less: | | | | |
| Unearned discount | - | - | - | - |
| Allowance for credit and impairment losses | 788,592 | 179,932 | 6,335,195 | 7,303,719 |
| | 89,466,482 | 1,000,801 | - | 90,467,283 |

| PAS 39 | 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 | 772,721 | 6,424,819 | 60,364,363 |
| Commercial and business | 1,591,823 | - | 36,527 | 1,628,350 |
| Real estate and housing | 115,981 | 1,716 | 32,707 | 150,404 |
| Other receivables | 877,907 | 1,932 | 115,100 | 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 | 776,369 | 6,609,153 | 83,401,989 |
| Less: | | | | |
| Unearned discount | 1,311 | - | - | 1,311 |
| Allowance for credit and impairment losses | 541,404 | 189,425 | 6,148,766 | 6,879,595 |
| | 75,473,752 | 586,944 | 460,387 | 76,521,083 |

Parent Company

| PFRS 9 | 2018 Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Investment securities | | | | |
| Financial assets at FVOCI | | | | |
| Debt securities | 300,094 | - | - | 300,094 |
| Financial assets at amortised cost | 6,178,957 | - | - | 6,178,957 |
| Loans and receivables | | | | |
| Loans and discounts | | | | |
| Consumption and others | 78,522,589 | 1,158,230 | 6,189,046 | 85,869,865 |
| Commercial and business | 1,848,218 | - | 24,372 | 1,872,590 |
| Real estate and housing | 135,278 | 113 | 21,532 | 156,923 |
| Other receivables | 1,195,313 | 18,606 | 100,245 | 1,314,164 |
| Loans and advances to banks and others | | | | |
| Cash and cash equivalents (excluding cash on hand) | 1,968,921 | - | - | 1,968,921 |
| | 90,149,370 | 1,176,949 | 6,335,195 | 97,661,514 |
| Less: | | | | |
| Unearned discount | - | - | - | - |
| Allowance for credit and impairment Losses | 788,399 | 179,932 | 6,335,195 | 7,303,526 |
| | 89,360,971 | 997,017 | - | 90,357,988 |

| PAS 39 | 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 | 772,721 | 6,421,871 | 60,280,799 |
| Commercial and business | 1,591,823 | - | 36,527 | 1,628,350 |
| Real estate and housing | 115,981 | 1,716 | 32,707 | 150,404 |
| Other receivables | 876,989 | 1,932 | 115,100 | 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 | 776,369 | 6,606,205 | 83,293,280 |
| Less: | | | | |
| Unearned discount | 1,311 | - | - | 1,311 |
| Allowance for credit and impairment Losses | 541,404 | 189,425 | 6,144,558 | 6,875,387 |
| | 75,367,991 | 586,944 | 461,647 | 76,416,582 |

Allowance for credit and impairment mainly represent specific and collective impairment provisions as at December 31, 2018 and 2017 as follows:

| Stage | Classification | Minimum allowance for credit losses | | No. of days unpaid/with missed payment |
|---|---|---|---|---|
| | | Unsecured | Secured | |
| 1 | Unclassified loans | 1% | 1% | - |
| 1 | Unclassified restructured loans | 2% | 2% | - |
| 2 | Loans especially mentioned (LEM) | 10% | 5% | 1- 10 days |
| 2 | Substandard | 25% | 12.5% | 11- 30 days |
| 2 | Doubtful | 50% | 25% | 31 – 90 days |
| 3 | Loss | 100% | 50% | 91 days and over |

*i. Stage 1/ 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 are fully performing and 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.

*(b) Investment securities*

The Group invests in fixed rate Treasury notes and retail Treasury bonds which are fully guaranteed by the Philippine government. The credit risk for these securities is deemed low.

*(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. Stage 2/ 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 90 days as of December 31, 2018 and 2017 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 stage 2/ past due but not impaired financial assets of the Group and Parent as at December 31 is shown below:

Consolidated

| | 2018 | | | |
|---|---|---|---|---|
| | Less than 30 days | 30 - 60 days | 61 - 90 days | Total |
| Consumption and others | 889,123 | 139,869 | 133,022 | 1,162,014 |
| Commercial and business | - | - | - | - |
| Real estate and housing | 113 | - | - | 113 |
| Other receivables | 125 | 13,437 | 5,044 | 18,606 |
| | 889,361 | 153,306 | 138,066 | 1,180,733 |

| | 2017 | | | |
|---|---|---|---|---|
| | Less than 30 days | 30 - 60 days | 61 - 90 days | Total |
| Consumption and others | 153,526 | 244,807 | 374,387 | 772,720 |
| Commercial and business | - | - | - | - |
| Real estate and housing | 1,716 | - | - | 1,716 |
| Other receivables | - | 1,485 | 448 | 1,933 |
| | 155,242 | 246,292 | 374,835 | 776,369 |

Parent Company

| | 2018 | | | |
|---|---|---|---|---|
| | Less than 30 days | 30 - 60 days | 61 - 90 days | Total |
| Consumption and others | 889,123 | 139,869 | 129,238 | 1,158,230 |
| Commercial and business | - | - | - | - |
| Real estate and housing | 113 | - | - | 113 |
| Other receivables | 125 | 13,437 | 5,044 | 18,606 |
| | 889,361 | 153,306 | 134,282 | 1,176,949 |

| | 2017 | | | |
|---|---|---|---|---|
| | Less than 30 days | 30 - 60 days | 61 - 90 days | Total |
| Consumption and others | 157,306 | 44,573 | 48,788 | 250,667 |
| Commercial and business | 1,801 | - | - | 1,801 |
| Real estate and housing | 67 | - | - | 67 |
| Other receivables | - | 3,394 | 157 | 3,551 |
| | 159,174 | 47,967 | 48,945 | 159,174 |

*iii. Stage 3/ 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.

### 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.

The Group is not exposed to foreign exchange risk and equity price risk as at December 31, 2018 and 2017. Certain financial assets are exposed to interest rate risk; however, such is deemed minimal as discussed below.

*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.

The Group's loans and receivable carry fixed interest rate while most investments in debt securities are held amortized cost thus, are insensitive to fluctuations in interest rate. Likewise, financial liabilities such as deposit liabilities and borrowings are subject to fixed interest rates. Interest rate risk therefore, arises mainly from debt securities at fair value through OCI amounting to P298.2 million as at December 31, 2018 (2017 - P415.2 million).

At December 31, 2018 and 2017, a shift of +/- 100 basis points on the prevailing market rates (with all other variables held constant), would reduce/increase other comprehensive income of the Group and Parent Company by P26 million (2017 - P20 million), respectively. 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.

### 27.1.3 Fair value of financial assets and liabilities

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

Consolidated and Parent Company

| | 2018 | 2017 | Fair value hierarchy |
|---|---|---|---|
| Financial assets at FVOCI/ AFS | | | |
| Debt securities | 298,234 | 415,192 | Level 2 |
| Equity securities | 3,072 | 2,672 | Level 1 |
| | 301,306 | 417,864 | |

In 2018 and 2017, 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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| *Financial assets* | | | | |
| Investments securities at amortized cost/ HTM investments | 6,178,957 | 3,923,629 | 11,593,395 | 10,440,203 |
| Loans and receivables | | | | |
| Loans and discounts | 80,756,289 | 67,819,913 | 55,379,628 | 43,222,945 |
| Other receivables | 1,209,004 | 936,003 | 877,522 | 994,895 |
| | 88,144,250 | 72,679,545 | 67,850,545 | 54,658,043 |

Parent Company

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Carrying Value | Fair value | Carrying value | Fair value |
| *Financial assets* | | | | |
| Investments securities at amortized cost/ HTM investments | 6,178,957 | 3,923,629 | 11,593,395 | 10,440,203 |
| Loans and receivables | | | | |
| Loans and discounts | 80,701,991 | 67,774,313 | 55,300,272 | 43,155,013 |
| Other receivables | 1,208,025 | 935,245 | 876,604 | 994,021 |
| | 88,088,973 | 72,633,187 | 67,770,271 | 54,589,237 |

### 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

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Up to 1 year | Over 1 year | Total | Up to 1 year | Over 1 year | Total |
| *Financial assets* | | | | | | |
| Cash and cash equivalents | 2,050,621 | - | 2,050,621 | 8,279,620 | - | 8,279,620 |
| Financial assets at FVOCI/ AFS investments | 1,860 | 301,306 | 303,166 | - | 420,614 | 420,614 |
| Financial assets at amortized cost HTM investments | 70,116 | 6,108,841 | 6,178,957 | 249,288 | 11,212,690 | 11,461,978 |
| Loans and receivables | | | | | | |
| Loans and discount | 6,984,730 | 80,969,139 | 87,953,869 | 6,335,020 | 55,806,786 | 62,141,806 |
| Other receivables | 1,305,836 | 9,307 | 1,315,143 | 985,551 | 9,388 | 994,939 |
| | 10,413,163 | 87,388,593 | 97,801,756 | 15,849,479 | 67,449,478 | 83,298,957 |
| *Financial liabilities* | | | | | | |
| Deposit liabilities | 18,537,241 | - | 18,537,241 | 16,039,124 | - | 16,039,124 |
| Bills payable | 6,700,000 | - | 6,700,000 | - | - | - |
| Accrued expenses and other expenses | 68,657 | - | 68,657 | 26,438 | - | 26,438 |
| Other liabilities | 2,123,158 | - | 2,123,158 | 2,102,856 | - | 2,102,856 |
| | 27,429,056 | - | 27,429,056 | 18,168,418 | - | 18,168,418 |

Parent Company

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Up to 1 year | Over 1 year | Total | Up to 1 year | Over 1 year | Total |
| *Financial assets* | | | | | | |
| Cash and cash equivalents | 1,996,598 | - | 1,996,598 | 8,255,388 | - | 8,255,388 |
| Financial assets at FVOCI/ AFS investments | 1,860 | 301,306 | 303,166 | - | 420,614 | 420,614 |
| Financial assets at amortized cost HTM investments | 70,116 | 6,108,841 | 6,178,957 | 249,288 | 11,212,690 | 11,461,978 |
| Loans and receivables | | | | | | |
| Loans and discount | 6,953,650 | 80,945,728 | 87,899,378 | 5,519,180 | 56,539,062 | 62,058,242 |
| Other receivables | 1,304,856 | 9,307 | 1,314,163 | 984,633 | 9,388 | 994,021 |
| | 10,327,080 | 87,365,182 | 97,692,262 | 15,008,489 | 68,181,754 | 83,190,243 |
| *Financial liabilities* | | | | | | |
| Deposit liabilities | 18,537,241 | - | 18,537,241 | 16,039,124 | - | 16,039,124 |
| Bills payable | 6,700,000 | - | 6,700,000 | - | - | - |
| Accrued expenses and other expenses | 68,019 | - | 68,019 | 26,438 | - | 26,438 |
| Other liabilities | 2,084,187 | - | 2,084,187 | 2,063,121 | - | 2,063,121 |
| | 27,389,447 | - | 27,389,447 | 18,128,683 | - | 18,128,683 |

## 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:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Type of membership | Volume | Amount (In millions) | Volume | Amount (In millions) |
| Associate | 60,063 | 13,017,696 | 60,479 | 13,282,679 |
| Corporate | 81 | 65,053 | 81 | 65,800 |
| Regular | 509,101 | 37,149,754 | 468,178 | 34,075,696 |
| | 569,245 | 50,232,503 | 528,738 | 47,424,175 |

*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 P50 billion and P47 billion as at December 31, 2018 and 2017, 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, 2018 and 2017, the Parent Company's capital-to-risk assets, in compliance with BSP circular 789, follows:

| | 2018 | 2017 |
|---|---|---|
| Total capital | 67,791,435 | 62,655,842 |
| Risk assets | 87,709,846 | 68,047,482 |
| Capital-to-risk assets ratio | 77.29% | 92.08% |

In 2018 and 2017, the capital adequacy ratio of the Parent Company based on fixed capital is 36.03% and 42.59%, 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/ FVOCI.

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, 2018:

- PFRS 15, 'Revenue from contracts with customers' replaces 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 did not have a material impact on the financial statements of the Group.

- *PFRS 9, 'Financial instruments'* replaces the provisions of PAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

As permitted by the transitional provisions of PFRS 9, the Group elected not to restate comparative figures.

The adoption of PFRS 9 has resulted in changes mainly in the Group accounting policies for recognition, classification and measurement, the impairment policies of the Group that comply with BSP's requirements remain unchanged. There were no changes in the classification of financial liabilities. PFRS 9 also significantly amends other standards dealing with financial instruments such as PFRS 7, Financial Instruments: Disclosures.

Set out below are disclosures relating to the impact of the adoption of PFRS 9 on the Group:

*Classification and measurement of financial assets*

The measurement category and the carrying amount of financial assets in accordance with PFRS 9 (from PAS 39) at January 1, 2018 are as follows:

Consolidated

| Financial assets | PAS 39 December 31, 2017 Measurement category | Carrying amount | PFRS 9 January 1, 2018 Measurement category | Carrying amount |
|---|---|---|---|---|
| Cash and other cash items | Amortized cost | 8,279,620 | Amortized cost | 8,279,620 |
| Financial assets at fair value through other comprehensive income (FVOCI) | | | | |
| Debt | AFS | 417,942 | FVOCI | 417,942 |
| Equity | AFS | 2,672 | FVOCI | 2,672 |
| Financial assets at amortized cost | Amortized cost | 11,593,395 | Amortized cost | 11,593,395 |
| Trade and other receivables | Amortized cost | 56,257,150 | Amortized cost | 56,257,150 |

Parent Company

| Financial assets | PAS 39 December 31, 2017 Measurement category | Carrying amount | PFRS 9 January 1, 2018 Measurement category | Carrying amount |
|---|---|---|---|---|
| Cash and other cash items | Amortized cost | 8,255,388 | Amortized cost | 8,255,388 |
| Financial assets at fair value through other comprehensive income (FVOCI) | | | | |
| Debt | AFS | 417,942 | FVOCI | 417,942 |
| Equity | AFS | 2,672 | FVOCI | 2,672 |
| Financial assets at amortized cost | Amortized cost | 11,593,395 | Amortized cost | 11,593,395 |
| Trade and other receivables | Amortized cost | 56,176,876 | Amortized cost | 56,176,876 |

All of the Group's debt instruments previously classified as HTM are classified as investment securities at amortized cost at January 1, 2018 consistent with the Group's business model for managing these securities. The reclassification however did not result to adjustment in the carrying amount of the investments. Accordingly, the impact of the adoption of PFRS 9 did not have any impact on the equity of the Group at transition date.

There are no other standards, amendments to standards or interpretation that are effective for annual periods beginning on January 1, 2018 that have a material effect 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, 2018 reporting period and have not been early adopted by 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. The financial impact is yet to be determined by the Group's management.

Likewise, the following amendments are not mandatory for December 31, 2018 reporting period and have not been early adopted by the Group:

- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to PAS 9, Plan Amendment, Curtailment or Settlement

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, 2018. 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

For cash flow reporting purposes, 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.

### 28.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank recognizes a financial instrument in the statement of condition when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

#### 28.6.1 Measurement methods

*Amortized cost and effective interest rate*

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.
When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

*Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commission. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

### 28.6.2 Financial assets

### 28.6.2.1 Classification and subsequent measurement

*Policy from January 1, 2018 (PFRS 9)*

From January 1, 2018, the Group has applied PFRS 9 and classifies its financial assets in the following measurement categories:
- Amortized cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

The classification requirements for debt and equity instruments are described below:

*Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- *Amortized cost*
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any ACL allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include investments in debt securities, loans and other financial receivables.

- *Fair value through other comprehensive income (FVOCI)*
  Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statements of comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- *Fair value through profit or loss (FVTPL)*
  Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in profit or loss and presented in the statements of comprehensive income within Trading gain on securities in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case these are presented separately. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. There are no financial assets under this category as at December 31, 2018.

*Business model:* The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

*SPPI:* Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

*Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity investments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

*Policy prior to January 1, 2018 (PAS 39)*

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

(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 securities

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 securities (AFS)

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.

*Subsequent measurement of financial assets (PAS 39)*

Available for-sale financial assets and financial assets 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

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.

### 28.6.2.2 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 financial assets at FVOCI/ AFS*

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.

### 28.6.3 Financial liabilities

*Classification and subsequent measurement of financial liabilities*

There have been no changes in the classification and measurement of the Group's financial liabilities from PAS 39 to PFRS 9.

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.

### 28.6.4 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 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 non-recoverable 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 28.10.

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.

### 28.8 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 28.10.

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.

### 28.9 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.

### 28.10 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.

### 28.11 Members' equity

*Members' contributions*

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.

*Surplus free*

Surplus free includes accumulated net income from current and prior years, net of any dividend declaration and transfers to surplus reserve.

*Surplus reserve*

Surplus reserve representing withdrawable surplus reserve is equal to 2% of the total capital contributions of the members. The Association also maintains reserves for building fund, ledger discrepancies and contingencies (Note 15).

*Other comprehensive income (OCI)*

OCI comprises items of income and expense that are not recognized in profit or loss during the year. OCI of the Group pertains to unrealized gain on fair value changes of financial assets at FVOCI and remeasurement gain or loss on retirement asset.

### 28.12 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, 2018 and 2017.

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, 2018 and 2017.

### 28.13 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.

### 28.14 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.

## 28.15 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 (PFRS 9 and PAS 39)*

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.

### 28.16 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.

## 28.17 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.

## 28.18 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.

## 28.19 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.

### 28.20 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.

### 28.21 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.

### 28.22 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.

### 28.23 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, 2018 consist of:

| | Amount |
|---|---|
| Documentary stamp tax | 76,140 |
| Business tax | 1,178 |
| Real estate tax | 1,046 |
| Fringe benefit tax | 710 |
| Vehicle Registration | 106 |
| Community tax | 2 |
| Others | 6,723 |
| | 85,905 |

*(iv) Withholding taxes*

Withholding taxes paid and accrued/withheld for the years ended December 31, 2018 consist of:

| | Paid | Accrued | Total |
|---|---|---|---|
| Withholding tax on compensation | 115,352 | 5,608 | 120,960 |
| Expanded withholding taxes | 35,852 | 2,487 | 38,339 |
| Final withholding taxes | 3,650 | - | 3,650 |
| | 154,854 | 8,095 | 162,949 |

At December 31, 2018, the Parent Company has no creditable withholding taxes.

*(v) Tax assessment*

There is no pending tax assessment as at December 31, 2018.

The Parent Company's open taxable years are 2015, 2016, and 2017.

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## 2018 AFPSLAI ANNUAL REPORT

The financial information in this report is for the period ended December 31, 2018, approved by the Bureau of Internal Revenue on April 30, 2019, and filed with Securities and Exchange Commission on May 27, 2019. Members may access a complete copy of the 2018 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, 2018 unless otherwise indicated.


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