P&A Grant Thornton

An instinct for growth™

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288

Report of Independent Auditors

The Board of Directors
Country Builders Bank, Inc. (A Rural Bank)
10 General Luna St.
Taguig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Country Builders Bank, Inc. (A Rural Bank) (the Bank), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the 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 Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2018 required by the Bureau of Internal Revenue as disclosed in Note 25 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Christopher M. Ferareza
Partner

CPA Reg. No. 0097462
TIN 184-595-975
PTR No. 7333693, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 1185-AR-2 (until May 9, 2021)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-34-2017 (until Jun. 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 15, 2019

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
RESOURCES			
CASH AND OTHER CASH ITEMS	7	**P 178,960,238**	P 194,293,649
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**93,415,063**	123,284,695
DUE FROM OTHER BANKS	7	**319,035,251**	178,350,804
LOANS AND RECEIVABLES - Net	9	**1,193,820,997**	1,070,201,284
HELD TO COLLECT INVESTMENTS	8	**723,010,384**	-
HELD-TO-MATURITY INVESTMENTS	8	**-**	924,844,104
INVESTMENT PROPERTIES - Net	11	**143,145,806**	142,242,697
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	**87,576,843**	92,282,762
DEFERRED TAX ASSETS	21	**23,012,394**	26,659,159
OTHER RESOURCES - Net	12	**49,832,253**	48,486,511
TOTAL RESOURCES		**P 2,811,809,229**	P 2,800,645,665
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	13	**P 2,327,407,165**	P 2,365,013,362
ACCRUED EXPENSES AND OTHER LIABILITIES	14	**118,712,847**	92,410,775
POST-EMPLOYMENT BENEFIT OBLIGATION	17	**17,269,873**	16,167,550
Total Liabilities		**2,463,389,885**	2,473,591,687
EQUITY	16	**348,419,344**	327,053,978
TOTAL LIABILITIES AND EQUITY		**P 2,811,809,229**	P 2,800,645,665

See Notes to Financial Statements.

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
INTEREST INCOME			
Loans and receivables	9	**P 135,280,578**	P 99,163,904
Investment securities	8	**34,749,304**	25,882,173
Due from other banks	7	**2,593,850**	3,342,098
		172,623,732	128,388,175
INTEREST EXPENSE			
Deposit liabilities	13	**(29,243,667)**	(23,597,680)
Note payable	15	**-**	(3,474,880)
		(29,243,667)	(27,072,560)
NET INTEREST INCOME		**143,380,065**	101,315,615
IMPAIRMENT LOSSES	9	**(169,144)**	(9,434,527)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**143,210,921**	91,881,088
OTHER INCOME	18	**91,084,591**	95,080,772
OPERATING EXPENSES	19	**(200,164,855)**	(150,858,502)
PROFIT BEFORE TAX		**34,130,657**	36,103,358
TAX EXPENSE	21	**(8,945,243)**	(7,405,022)
NET PROFIT		**25,185,414**	28,698,336
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently through profit or loss			
Gain on remeasurement of post-employment benefit obligation	17	**2,013,750**	677,047
Tax expense	21	**(604,125)**	(203,114)
		1,409,625	473,933
TOTAL COMPREHENSIVE INCOME		**P 26,595,039**	P 29,172,269

See Notes to Financial Statements.

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	Capital Stock		Reserves					Surplus	Total Equity
		Common Stock	Preferred Stock	Appraisal Increment	Retirement	Regulatory	Others	Total		
Balance as of January 1, 2018										
As previously reported	16	P 135,263,200	P 38,345,800.00	P 6,530,629	P 9,436,804	P -	P -	P 15,967,433	P 137,477,545	P 327,053,978
Effect of adoption of PFRS 9, net of tax	2, 21	-	-	-	-	4,030,629	-	4,030,629	8,099,072	12,129,701
As restated		135,263,200	38,345,800	6,530,629	9,436,804	4,030,629	-	19,998,062	145,576,617	339,183,679
Cash dividends	16	-	-	-	-	-	-	-	(17,359,374)	(17,359,374)
Reversal of appropriation	16	-	-	-	-	(3,325,670)	-	(3,325,670)	3,325,670	-
Total comprehensive income for the year		-	-	-	1,409,625	-	-	1,409,625	25,185,414	26,595,039
Balance as of December 31, 2018	16	**P 135,263,200**	**P 38,345,800**	**P 6,530,629**	**P 10,846,429**	**P 704,959**	P -	**P 18,082,017**	**P 156,728,327**	**P 348,419,344**
Balance as of January 1, 2017	16	P 74,364,900	P 70,350,400	P 6,530,629	P 8,962,871	P -	P 1,413,540.00	P 16,907,040	P 112,502,235	P 274,124,575
Issuance of shares for merger	1, 16	49,648,300	5,800,000	-	-	-	-	-	-	55,448,300
Additional issuance of shares	1, 16	11,250,000	-	-	-	-	-	-	-	11,250,000
Redemption of preference shares	16	-	(37,804,600)	-	-	-	-	-	(2,859,450)	(40,664,050)
Cash dividends declared on preferred stocks	16	-	-	-	-	-	-	-	(2,277,116)	(2,277,116)
Reversal of appropriation		-	-	-	-	-	(1,413,540)	(1,413,540)	1,413,540	-
Total comprehensive income for the year		-	-	-	473,933	-	-	473,933	28,698,336	29,172,269
Balance as of December 31, 2017	16	P 135,263,200	P 38,345,800.00	P 6,530,629	P 9,436,804	P -	P -	P 15,967,433	P 137,477,545	P 327,053,978

See Notes to Financial Statements.

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 34,130,657**	P 36,103,358
Adjustments for:			
Interest income	7, 8, 9	**(172,623,732)**	(128,388,175)
Interest received		**170,884,332**	139,114,525
Gain on sale of investment properties	11	**(40,451,409)**	(42,419,927)
Interest paid		**(31,632,403)**	(21,004,443)
Interest expense	13. 15	**29,243,667**	27,072,560
Depreciation and amortization	10, 11, 12	**15,075,856**	12,682,217
Gain on sale of building	10	**(2,535,850)**	(129,999)
Impairment losses	9	**169,144**	9,434,527
Amortization of HTM investments	8	**158,827**	10,012,749
Gain on sale of held-to-maturity (HTM) investments	8	**-**	(4,487,091)
Operating income before changes in resources and liabilities		**2,419,089**	37,990,301
Increase in loans and other receivables		**(70,257,572)**	(107,342,939)
Decrease (increase) in investment properties		**(1,053,046)**	35,698,367
Increase in other resources		**(1,027,881)**	(8,369,489)
Increase (decrease) in deposit liabilities		**(37,606,197)**	131,270,941
Increase in accrued expenses and other liabilities		**31,806,881**	19,783,192
Cash generated from (used in) operations		**(75,718,726)**	109,030,373
Cash paid for income taxes		**(12,283,639)**	(12,236,150)
Net Cash From (Used In) Operating Activities		**(88,002,365)**	96,794,223
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities of held to collect (HTC) investments	8	**544,314,893**	-
Acquisitions of HTC investments	8	**(342,640,000)**	-
Acquisitions of bank premises, furniture, fixtures and equipment	10	**(4,614,840)**	(7,310,373)
Proceeds from disposals of bank premises, furniture, fixtures and equipment	10	**3,783,090**	130,000
Proceeds from maturities and disposals of HTM investments	8	**-**	267,760,404
Acquisitions of HTM investments	8	**-**	(256,166,765)
Proceeds from sale of other investment		**-**	16,500,000
Net Cash From Investing Activities		**200,843,143**	20,913,266
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividends		**(17,359,374)**	(2,277,116)
Proceeds from issuance of shares of stocks	16	**-**	11,250,000
Repayments of note payable	15	**-**	(138,739,142)
Redemption of preferred stocks	16	**-**	(40,664,050)
Net Cash Used in Financing Activities		**(17,359,374)**	(170,430,308)
CASH ACQUIRED FROM MERGER	1	**-**	273,044,267
NET INCREASE IN CASH AND CASH EQUIVALENTS		**95,481,404**	220,321,448
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7		
Cash and other cash items		**194,293,649**	75,515,129
Due from Bangko Sentral ng Pilipinas		**123,284,695**	55,166,862
Due from other banks		**178,350,804**	144,925,709
		495,929,148	275,607,700
CASH AND CASH EQUIVALENTS AT END OF YEAR	7		
Cash and other cash items		**178,960,238**	194,293,649
Due from Bangko Sentral ng Pilipinas		**93,415,063**	123,284,695
Due from other banks		**319,035,251**	178,350,804
		P 591,410,552	P 495,929,148

Supplemental Information on Noncash Financing Activities

In 2017, the Bank merged with another bank and issued P49,648,300 common shares and P5,800,000 preferred shares as consideration for the merger and net assets transferred by the other bank (see Notes 1 and 16).

See Notes to Financial Statements.

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

Country Builders Bank, Inc. (A Rural Bank) (CBB or the Bank) is the product of the consolidation of two banks, Country Rural Bank of Taguig, Inc. and Builders Rural Bank (BRB). It was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on September 27, 2012. The Bank started its operations on November 5, 2012.

It was incorporated primarily to carry and engage in the business of granting rural credit to small farmers and tenants and deserving rural industries or enterprises, to have and exercise all authority and powers, to do and perform all acts, and to transact all business which may legally be had or done by rural banks organized under and in accordance with Republic Act (RA) No. 7353, *Rural Bank Act of 1992.*

The Bank serves a broad and diverse clientele including micro, small and medium enterprises, agricultural businesses, businessmen, professionals, teachers, vendors, government and private employees.

The Bank's registered office is located at 10 General Luna St., Taguig City. The Bank has a total branch network of 36 sites located in Metro Manila, Cavite, Laguna, Rizal and Bulacan areas.

1.2 Merger between the Bank and 1st Macro Bank, Inc.

On October 11, 2016, the Bank received from the BSP its approval in principle of the merger between the Bank and 1st Macro Bank, Inc. (A Rural Bank) (herein referred to as FMB) with the Bank as the surviving entity.

Subsequent to this, the plan of merger of the Bank and FMB was approved for execution by the BSP on April 11, 2017. The amended articles of incorporation and plan of merger has been approved by the SEC on October 19, 2017.

The merger between the Bank and FMB was made to enhance the Bank's presence as the merger increased the Bank's branch network from 22 branches in 2016 to 31 branches and 5 micro banking offices (MBOs) in 2017. These MBOs will be converted to regular branches as one of merger incentives granted by BSP. The merger has also improved the Bank's presence in Cavite and Laguna as FMB has eight bank site locations in those areas.

The details of the business combination follow:

	Notes	
Fair value of the consideration transferred	16.1	P 55,448,300
Recognized amounts of identifiable net assets		
Cash and cash equivalents	7	273,044,267
Loans and receivables	9	177,267,156
Held-to-maturity (HTM) investments	8	211,223,076
Investment properties	11	32,586,370
Bank premises, furniture, fixtures and equipment	10	13,894,529
Deferred tax assets	21	10,217,435
Other resources		4,766,773
Deposit liabilities and other liabilities		(672,051,294)
		50,948,312
Goodwill recognized from merger	12	P 4,499,988

As consideration for the merger of the Bank and FMB, the Bank issued to the former shareholders of FMB P49,648,300 common shares (representing 496,483 shares) and P5,800,000 preferred shares (representing 58,000 shares) as disclosed in Note 16. The fair value of the consideration transferred did not include any contingent consideration as no contingent asset or liability arising from the merger is expected.

1.3 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2018 (including the comparative financial statements as of and for the year ended December 31, 2017) were approved and authorized for issue by the Bank's Board of Directors (BOD) on April 15, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements.* The Bank presents all items of income and expenses in a single statement of comprehensive income.

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

In 2018, the Bank adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allowed the Bank not to restate its prior periods' financial statements. Difference arising from the adoption of PFRS 9 in relation to measurement and impairment of financial assets is recognized in the opening balance of Surplus in the current year [see Note 2.2(a)(ii)].

(c) Functional and Presentation Currency

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

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

2.2 *Adoption of New and Amended PFRS*

(a) Effective in 2018 that are Relevant to the Bank

The Bank adopted for the first time the following PFRS, interpretation, amendments and improvements to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Transfers of Investment Property
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014-2016 Cycle) PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-Term Exemptions

Discussed below are the relevant information about these amendments, new standards, interpretation and annual improvements.

(i) PAS 40 (Amendments), *Investment Property – Transfer of Investment Property.* The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments also provided a non-exhaustive list of examples constituting change in use.

(ii) PFRS 9 (issued in 2014). This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);

- an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,

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

The impact of the adoption of this new accounting standard on the Bank's financial statements are as follows:

(a) Classification and Measurement

The classification and measurement requirements of PFRS 9 did not have a significant impact to the Bank as all financial assets classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest (SPPI). These are now classified and measured as financial assets at amortized cost beginning January 1, 2018. The Bank has not designated any financial liabilities as at fair value through profit or loss; no changes in their classification and measurement.

(b) Expected Credit Loss Model

The Bank remeasured its allowance for ECL with adjustment charged against the opening balance of Surplus in the statement of changes in equity net of deferred tax assets as at January 1, 2018.

In addition, as required by the BSP, the Bank has appropriated P4.03 million of Surplus to Regulatory Reserves which is reported as a separate component of the statements of changes in equity. This appropriation represents the excess of the one percent required allowance for credit losses of the BSP over the computed allowance for ECL for Stage 1 accounts (see Notes 2.20 and 16.6).

The table below shows the effects of the adoption of PFRS in the carrying amounts (CA) and presentation of the categories of the financial assets in the statement of financial position as at January 1, 2018:

Measurement Category	CA, PAS 39 December 31, 2017	Reclassification	Remeasurement (see Note 9)	CA, PFRS 9 January 1, 2018	Total Equity*
Financial Assets at Amortized Cost:					
Cash and other cash items	P 194,293,649	P -	P -	P 194,293,649	P -
Due from BSP	123,284,695	-	-	123,284,695	-
Due from other banks	178,350,804	-	-	178,350,804	-
Loans and other receivables	1,070,201,284	-	17,328,145	1,087,529,429	12,129,701
HTM Investments	924,844,104	(924,844,104)	-	-	-
HTC Investments	-	924,844,104	-	924,844,104	-
	P 2,490,974,536	P -	P 17,328,145	P 11,530,173,445	P 12,129,701

**Net of deferred tax assets (see Note 21.2)*

In addition to the foregoing impact of adoption of PFRS 9, the Bank also revised its accounting policies for financial instruments to fully conform with PFRS 9. The Bank's revised accounting policies relative to the adoption of PFRS 9 are fully disclosed in Notes 2.3 and 2.9.

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

The Bank's significant sources of revenue pertain to its lending activities which generate interest income, service charges, fees and commissions. Except for service charges, fees and commissions, substantial amount of the Bank's revenues are out of scope of PFRS 15. The recognition and measurement of revenue streams within the scope of PFRS 15 did not change upon transition from PAS 18. As such, the adoption of PFRS 15, which was applied retrospectively, did not result in material adjustments to the financial statements of the Bank. Nevertheless, the Bank's accounting policies on revenue recognition have been revised accordingly to fully conform with PFRS 15. The revised accounting policies are presented in Note 2.12.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration.* The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no impact on the Bank's financial statements.

(v) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PFRS 1 (Amendments), *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions* which removed short-term exemptions in PFRS 1 covering PFRS 7, *Financial Instruments: Disclosures*, PAS 19, *Employee Benefits*, and PFRS 10, *Consolidated Financial Statements*, because the reporting period to which the exemptions applied have already transpired, are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify existing requirements.

(b) Effective in 2018 but are not Relevant to the Bank

The following amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Bank's financial statements:

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9, with PFRS 4, *Insurance Contracts*
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

(ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

(iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease.* For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method.

However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

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

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Surplus account at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Bank's financial statements.

(iv) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(v) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends.* The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

2.3 Financial Assets

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

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9 (applicable to 2018)

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets at amortized cost, the only classification and measurement of financial assets applicable to the Bank, is described as follows.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank 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 Bank's financial assets at amortized cost are presented in the 2018 statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Held to Collect Investments, Loans and Receivables and Security deposits (presented as part of Other Resources).

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise of accounts with original maturities of three months or less, including Cash and Other Cash Items and non-restricted balances of Due from BSP and Due from Other Banks. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) Recognition of Interest Income Using Effective Interest Rate Method

Interest income on financial assets measured at amortized cost (beginning January 1, 2018), is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

The interest earned is recognized as part of Interest Income account in the statement of comprehensive income.

(c) *Classification and Measurement of Financial Assets in Accordance with PAS 39 (applicable to 2017)*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

A more detailed description of the financial assets relevant to the Bank as of December 31, 2017 is as follows:

(i) Loans and Other Receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are direct loans to customers, sales contract receivables and all other receivables from customers and other banks.

As of December 31, 2017, the Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP and Due from Other Banks, (collectively referred to as Cash and Cash Equivalents in the statement of cash flows), Loans and Receivables and Security deposits (under the Other Resources account) in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

(ii) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified as AFS financial assets. The tainting provision will not apply if the sales of or reclassifications from HTM investments: *(i)* are so close to maturity or the financial assets' call date that changes in the market rate of interest would not have a significant effect on the financial assets' fair value; *(ii)* occur after the Bank has collected substantially all of the financial assets' original principal through scheduled payments or prepayments; or *(iii)* are attributable to an isolated event that is beyond the control of the Bank, is non-recurring and could not have been reasonably anticipated by the Bank.

As of December 31, 2017, the Bank held government, government-owned and controlled corporation (GOCC) and corporate debt securities designated into this category (see Note 3.1).

Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated future cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired.

(d) Impairment of Financial Assets Under PFRS 9 (applicable to 2018)

From January 1, 2018, the Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost.

Recognition of credit losses is no longer dependent on Bank's identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.3.

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation (see Note 4.3.1.2) over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss given default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at default (EAD)* – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank's detailed ECL measurement, as determined by the management, is disclosed in Note 4.3.1.

(e) Impairment of Financial Assets Under PAS 39 (applicable to 2017)

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

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

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

(f) *Derecognition of Financial Assets*

(i) *Modification of Loans*

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets Other than Modification

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

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment losses. As no finite useful life for land can be determined, the related carrying amount is not depreciated. All other items of bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

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

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

Buildings	10-20 years
Furniture, fixtures and equipment	3 to 7 years
Transportation equipment	5 to 10 years

Leasehold rights and improvements amortization is computed over the lease term or the estimated useful life of the improvement, whichever is shorter. The estimated useful life of leasehold rights and improvements is five years depending on the nature of the improvement.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period.

Fully depreciated and fully amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation is made in respect of those assets.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognized in profit or loss in the year the item is derecognized.

2.5 Investment Properties

Investment properties represent properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in providing services or for administrative purposes.

The Bank adopted the cost model in measuring its investment properties, hence, these are stated at cost less accumulated depreciation and any impairment in value. The cost of an investment property comprises of the carrying amount of the foreclosed loan and directly attributable costs incurred such as legal fees, transfer fees and other transaction costs. Direct operating expenses such as repairs and maintenance and real estate taxes are normally charged against current operations during the period in which these costs are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets of 10 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14).

Investment properties including the related accumulated depreciation and any impairment losses are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Other Income in the statement of comprehensive income in the year of retirement or disposal.

2.6 Assets Held-for-Sale

Assets held-for-sale include land and buildings that the Bank intends and committed to sell through an active marketing program.

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

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

If the Bank has classified an asset as held-for-sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Bank shall cease to classify the asset as held for sale. The gain or loss on sale of assets is included as part of Other Income or Operating Expenses account in the statement of comprehensive income.

2.7 Intangible Assets and Business Combination

Intangible assets include goodwill and acquired computer software which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production.

Acquired computer software licenses presented under Other Resources are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of five years as the lives of these intangible assets are considered finite.

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill represents the excess of the cost of an acquisition over fair value of the Bank's share of the net identifiable assets of the acquired business at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.14).

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

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

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

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

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

2.8 Other Resources

Other resources pertain to other assets that are controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.