



ANNUAL REPORT
2018

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1. Corporate Policy

In order to align every stakeholder and employee to the goals of the company, The Bank has updated its mission-vision statement last year to improve its relevance to the bank's present goals and objectives:

a. Vision - Mission Statements

Vision

- Laguna Prestige Bank to become the preferred financial partner of private individuals, start-up companies and existing small and medium enterprises
- To be among the top 20 rural banks in the industry within 5 years offering a wide range of products and services
- To have a core of competent and dedicated employees who share the vision of the Bank and will contribute to the fulfillment of the Bank's mandate in the country's development.

Mission Statement

We, at Prestige Bank promise to stand by these functions in line with our goal to be a top Rural Bank in the country:

Promote and support agri, rural enterprise and commerce by providing banking products to its clients.

Respond to the needs of clients and exceed their expectations to establish long lasting partnerships.

Encourage innovation to create effective solutions for the ever-changing business environment.

Sustain the bank's low risk business model in accordance with its prudent and conservative transition.

Train employees constantly to develop a competent workforce with professional orientation.

Instill integrity and adhere to strong moral principles.

Generate maximum returns to honor its commitment in creating value to our shareholders.

Ensure adherence to BSP regulations and of other regulatory agencies.

Core Values

Professionalism

We are committed to devoting the best of our attention and abilities to proper discharge of tasks, roles, and responsibilities assigned to us in PrestigeBank, continually upgrading our skills and knowledge keeping abreast with ongoing local and global developments, aiming a setting example of excellence to inspire others within and outside PrestigeBank.

Transparency & Accountability

We are committed to transparency and accountability to our stakeholders in discharge of our official decisions and actions

Open-mindedness & Receptivity to new ideas

We are committed to receptivity to new ideas and suggestions, within or outside the company, coming through vertical and lateral channels in setting and proactively pursuing our organizational objectives and goals.

Teamwork

We are committed to participatory, collaborative work in team relationships towards attainment of organizational objectives extending across business lines.

Integrity

We are committed to the highest standards of probity and integrity in our actions and decisions in PrestigeBank. We shall carefully avoid any abuse for personal gain of privileged information obtained in connection with official duties in PrestigeBank; we shall also carefully avoid conflicts of institutional interests of PrestigeBank with our own private interests.

b. Customer is King

Laguna Prestige Bank has always been known for its outstanding customer service. Focusing on customer satisfaction is essential to retain existing patrons and attract potential clients. The very foundation of our relationship with our customers is built on trust. Thus, we continually strive to create a customer-centric culture that helps our customers meet their financial goals by rendering proactive and personalized service, while observing fair and responsible conduct in everything we do.

In managing feedback, we ensure that customers' evaluation, comments and suggestions that are placed in our survey forms are disseminated to management down to our front liners.

We have also adopted our own whistleblowing policy to encourage and enable employees to report an actual or suspected wrongdoing in the Bank

The Admin. department will continue to nurture the Bank's human capital through continuous seminars and trainings to ensure delivery of personal and proactive service aligned with the Bank's promise to our customers.

c. Business Model

Laguna Prestige Bank's still practices a traditional business model. LPBRB generates funds by accepting deposits which, in turn, is made available to borrowers to fund their personal and business needs. Small and medium enterprises that need additional funds for capital, inventory build-up and business expansion make up the majority of the Bank's borrower profile. Aside from this, the Bank offers property acquisition loans, agri/agra loans, revolving credit line, consumer loans, and pension loans.

Over the years, the Bank has been maintaining a high liquidity position. HTM investments, such as retail treasury notes and corporate bonds as well as medium-term Time Deposits have contributed significantly to the Bank's income generation.

The Bank's business model, which relies heavily on interest income, has been challenged by the bigger banks as they have challenged the Rural Banking industry by offering low interest-bearing loan products as well as other bank-related products.

As part of the Bank's thrust to evolve and adapt to the changing times, LPBRB has added fee based products such as ATM, Money Remittance, SSS payments and payouts as it sees the need to diversify in order to establish additional income streams. With the quick emergence of financial digitalization, the Bank is also keen on tapping innovative technologies being offered by several Fintech companies in order for the Bank to catch up with the new financial trends.

2. Financial Summary Highlights

a. Highlights

| | 2018 | 2017 |
|-----------------------------|--------------|--------------|
| PROFITABILITY | | |
| Total Net Interest Income | 35,260,769 | 39,286,457 |
| Total Non-Interest Income | 7,888,491 | 10,500,622 |
| Total Non-Interest Expenses | 31,195,006 | 34,098,097 |
| Pre-provision Profit | 9,115,273 | 11,859,905 |
| Allowance for Credit Losses | 30,091 | 1,294,490 |
| Net Income | 9,085,182 | 10,565,415 |
| BALANCE SHEET DATA | | |
| Liquid Assets | 161,743,683 | 132,340,475 |
| Gross Loans | 315,251,431 | 337,171,025 |
| Total Assets | 625,172,275 | 620,260,817 |
| Deposits | 386,548,909 | 386,245,872 |
| Total Equity | 229,870,894 | 226,856,900 |
| RATIOS | | |
| Return on Equity | 3.49% | 4.97% |
| Capital Adequacy Ratio | 44.718% | 43.88% |
| OTHERS | | |
| Cash dividends declared | 5,077,500.00 | 5,077,500.00 |
| Headcount (employees) | 43 | 45 |
| Officers | 15 | 15 |
| Staff | 27 | 29 |
| Consultant | 1 | 1 |

b. Risk-Based Capital Adequacy Ratio (as of December 31, 2018)

LAGUNA PRESTIGE BANKING CORPORATION (A RB)

Name of Bank

COMPUTATION OF THE RISK-BASED CAPITAL ADEQUACY RATIO COVERING COMBINED CREDIT MARKET AND OPERATIONAL RISKS

SIMPLIFIED SOLO BASIS

As of December 31, 2018

CONTROL PROOFLIST

PART I. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (Amounts in P0.000 million)

| Item | Nature of Item | Account Code | Amount |
|-----------|--|----------------------|---------|
| A. | Calculation of Qualifying Capital | | |
| A.1 | Net Tier 1 Capital | 395000000000710000 | 227.871 |
| A.2 | Net Tier 2 Capital | 395000000000720000 | 2.550 |
| A.3 | Total Qualifying Capital [Sum of A.1 and A.2] | 395000000000700000 | 230.421 |
| B. | Calculation of Risk-Weighted Assets | | |
| B.1 | Total Credit Risk-Weighted Assets [B.1(d) minus B.1(h)] | 19593100000000000000 | 451.795 |
| (a) | Risk-Weighted On-Balance Sheet Assets | 100000000000811000 | 451.795 |
| (b) | Risk-Weighted Off-Balance Sheet Assets | 400000000000812000 | |
| (c) | Counterparty Risk-Weighted Assets | 110100000000813000 | 0.000 |
| (d) | Total Credit Risk-Weighted Assets [Sum of B.1(a), B.1(b) and B.1(c)] | 100000000000810000 | 451.795 |
| (e) | Deductions from Total Credit Risk-Weighted Assets | | |
| (f) | General Loan Loss Provision (in excess of the amount permitted to be included in upper Tier 2 capital) [Part III.1, Item G.(1)(b) minus Part II, Item B.1.(7)] | 175150500000000000 | 0.000 |
| (g) | Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board | 365052000000711000 | 0.000 |
| (h) | Total Deductions [Sum of B.1(f) and B.1(g)] | 165000000000810000 | 0.000 |
| B.2 | Total Operational Risk-Weighted Assets | 195000000000830000 | 63.485 |
| B.3 | Total Market Risk-Weighted Assets | 100000000000820000 | 0.000 |
| B.4 | Total Risk-Weighted Assets [Sum of B.1, B.2 and B.3] | 100000000000800000 | 515.280 |
| C. | RISK-BASED CAPITAL ADEQUACY RATIO [A.3 divided by B.4 multiply by 100] | 990000000000000000 | 44.718 |

I hereby certify that all matters set forth in this Computation of the Risk-Based Capital Adequacy Ratio Covering Combined Credit Market and Operational Risks are true and correct to the best of my knowledge and belief.

3. Financial Condition and Results of Operation

a. Introduction

presented by Laguna Prestige Bank President/CEO Mr. Gilbert Francis B. Bella during the annual stockholders' meeting last January 22, 2019 at Casa Bella, Cabuyao, Laguna.

Statistics would show that the banking industry in our country has constantly improved over the years. According to Standard & Poor's Global Ratings (S&P), the Philippines now holds a rating of BBB+ which is two notches higher than the minimum investment grade of 'BBB-' and a step away from an 'A' rating. Moreover, S&P upgraded its Banking Industry Country Risk Assessment (BICRA) on the Philippines to group 5 from 6.

In addition, the Japan Credit Rating Agency (JCRA) has upgraded their rating outlook on the Philippines from 'Stable' to 'Positive'. The JCRA cited the country's high and sustainable economic growth, resilience to external shocks, accumulation of foreign exchange reserves and the government's sound fiscal position as the primary rationale for the upgrade.

At present, there are 447 rural banks with a collective network of 2,934 head offices and other offices. Rural Banks hold 54 percent of the newly created 1,909 Branch-lite units. The total asset of rural and cooperative banks (R/CBs) increased by 6.6 percent and reached P250.3 billion. At the same time, capitalization moved up by 10.4 percent while deposits increased by a robust 5.7 percent.

Capital Adequacy Ratio of rural and cooperative banks (R/CBs) is at 19.6 percent. In terms of profitability, net income for 2018 reached P4.0 billion, higher by 3.9 percent than in 2017.

In spite of all these positive figures, there were 11 Rural Bank closures in 2018. Mismanagement, problematic loan portfolio, undercapitalization and overexpansion are still the common causes of bank closures. The number of RBs fell from 492 to 477,

Financial Technology has been the talk of the town for the last couple of years. It is said to be the solution for financial inclusion which is one of the BSP's top agenda. Several financial companies now offer mobile/online systems that have changed the landscape of the whole banking industry. In this new era of digitalization, it is imperative that we keep up in order to stay relevant. Millennials, so to speak, rely on their smartphones for their financial transactions. They need not step inside a bank to consummate such transactions.

RBAP has responded well and is now focusing on developing a shared services system to strengthen the Rural Banking Industry through the following:

1. A centralized, common platform that meets regulations at minimal capital expenditure for rural banks
2. Build a data centre that is compliant to strict privacy, regulatory and network security requirements
3. Get the rural banks NRPS and DPA compliant and capable
4. Capacitate rural banks to come up with competitive products and services
5. Provide opportunities for services (e.g. ATM, remittances, POS, LOS, credit scoring)

Prestige Bank is primed to go on board with this new innovation. Aside from this, the Bank is fervently set to engage in several other services such as mobile applications and online lending in order to face the emerging Fintech competition.

Being the current President of Federation of the Laguna Rural Banks and having to attend RBAP conventions, I have come across common predicaments of rural banks. Top of the list is the brutal competition against the big banks. They still offer the same low, rock bottom lending rates and now they are offering high deposit rates. As experienced, they have attempted to take out our existing clients. Big banks now stretch loanable funds more than appraised value. Aside from this, they offer “pay when able” schemes which are unimaginable to rural bank’s lending policies. Lastly, they offer mobile online services that are well received by the younger customers, the millennials so to speak.

Insufficient capital of RBs is still one of the main causes of bank closures. Bank owners are hesitant to infuse more funds into their struggling banks. With low capital, they also have limited funds to lend out, making it hard for them to achieve decent profit pictures.

With regards to our beloved Bank, 2018 was a very steep uphill climb most especially in the area of loans. We all know that lending is the Bank’s core business. The bulk of any bank’s profit heavily relies on income generated from loans. The Bank lost a 33 million loan account from our top borrower for 2018 as it was prepaid immaturity due to the borrower’s demise. 33 million is more or less 10% of the bank’s loan portfolio. We knew immediately the impact of losing this big loan.

For the entirety of the year, the whole Bank rallied to regain the lost loan portfolio. More or less, the bank has lost around 3.5 Million potential income from the decline in loan volume. This is on top of the average 10 million loan repayments that we have to replenish every month just to retain a decent loan portfolio level. To help generate more income for the bank, we decided to add service charges on loans granted. It is a blessing that our borrowers accepted this add-on charge and have still remained with us. We have also participated in a 65 million Syndicated Loan with fellow Laguna rural banks to generate income.

Hereunder is the Bank’s primary accomplishments and activities for the year 2018

1. Bank focused on regaining Loan Portfolio volume to replenish prepayment of our top borrower amounting to 33M at 13% per annum
2. Reintroduced Service Charges on loans
3. Rolled out new Bank Signages
4. Signed in with Encash for our ATM switch for better transparency and profitability
5. Launching of Facebook and Instagram Accounts
6. Cebuana Lhuiller Partnership
7. 3.5 CAMELS rating during the last BSP examination
8. Disposed three (3) foreclosed properties/ROPAs
9. Participated in the 65 million loan syndication with fellow Laguna Rural Banks (Binan Rural Bank, Entrepreneur Bank, Banco Laguna, Rural Bank of Rizal, Banco De Calamba).
10. Focused on Manpower development through trainings and seminars

| | |
|---|--|
| Orientation on BSP Cir 963, generation and timely submission on required reports to the BSP <i>SMX, Pasay City January 24, 2018</i> | Audit Findings on Loan Dept. <i>In House, May 17, 2018</i> |
| Credit and Loan Packaging Seminar <i>RBAP Intramuros January 30-31, 2018</i> | Corporate Governance Course for Bank Directors and Officers <i>RBAP Intramuros, May 17, 2018</i> |
| AML seminar : Circular 950 Updated AML Rules and Regulations <i>RBAP Manila, January 24, 2018</i> | Briefing on Cebuana Pera Padala System <i>In House, June 7, 2018</i> |

| | |
|--|---|
| Circular No. 941 (Amendments to the Regulations on Past Due and Non- performing Loans <i>Hotel Jen, Pasay City, February 8, 2018</i> | Briefing on Circular 941 and other BSP issued policy guidelines on loan operation <i>In House, June 21, 2018</i> |
| Launching of SSS Pension, Loan AMLA updates Circular 950 and amended Policy Guidelines Frequent Audit Findings <i>In-House Seminar, February 21, 2018</i> | AMLA refresher course Hands-on Training with Byte per Byte Re-Loan updates <i>In House, June 21, 2018</i> |
| Joint Survivorship Agreement <i>In-House Seminar, February 28, 2018</i> | CSTRB and CCLRB IT Summit <i>September 25-26, 2018 @ Baguio City</i> |
| New policy Guidelines covering Dormant Accounts <i>In-House Seminar, February 28, 2018</i> | SEAMLESS PHILIPPINES – Fintech, E-Banking seminar and Convention <i>SMX September 26-27</i> |
| Regional Joint Anti-Bank Robbery and Cyber-Cyber-Crime Committee <i>Cabuyao Police Station, March 2, 2018</i> | 61st RBAP Charter Anniversary Symposium <i>One Esplanade, Pasay City, October 22-23, 2018</i> |
| Implementation of R.A. 10963 (Tax Reform for Accelaration and Inclusion (TRAIN Act) <i>Sta Rosa Auditorium, February 7, 2018+BIR Office Biñan, April 4, 2018</i> | Credit Scoring and Loss Estimation Course <i>RBAP Intramuros December 3-4</i> |

To instill unity and camaraderie among employees an overnight company outing was granted to all employees of the Bank. It was held last May 25, 2018 at Woodside Farm and Waterpark located at Casile, Cabuyao City.

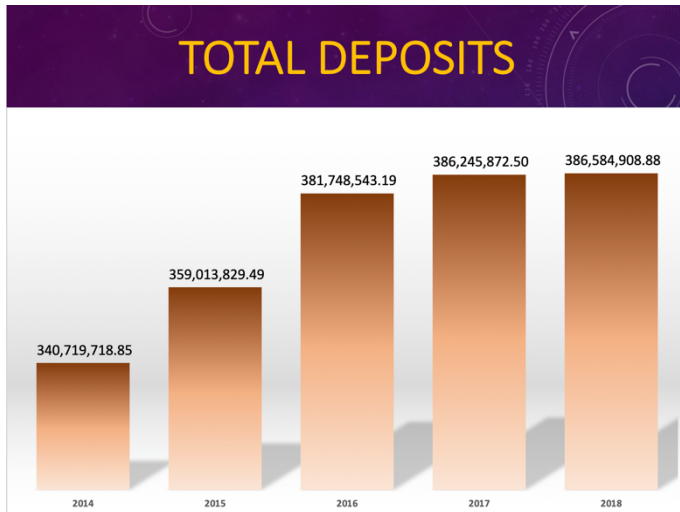
Last December 28, 2018 the Bank had their annual Thanksgiving Party. Directors and our other sponsors contributed to the raffle prizes and cash prizes. Nobody went home empty handed. There were dance numbers, games, special awards given, videoke contest, and individual song numbers from both the Chairman and the President.

b. Financial Highlights 2018



As the year ended, we fell short of 22 million pesos to at least maintain the Bank's last year's loan volume. Loan volume even dropped to a low of 280M Pesos midyear. However, the Bank still made a valiant effort to bring back the loan volume to over 300 million.

The most recent publication of the BSP with regards to Bank rankings is June 30, 2018. Our loan portfolio dove to 283.18 million putting the Bank at 72nd spot in the whole Rural Banking System.



We have maintained our total deposit volume at 386 million for this year. He added that there is wisdom in having a big deposit volume if a Bank is able to lend out much of it. For 2019, the Bank plans to campaign for more deposits to increase deposit volume as well as loanable funds

Prestige bank placed 73rd among rural banks, 3rd in Laguna based on the same statistics by the BSP as of June 30, 2018.



Since total loans and deposits did not increase this year, the Bank's total assets only increased by 4 million for 2018. The increase can be attributed to the bank's increase in undivided profits of 2018.

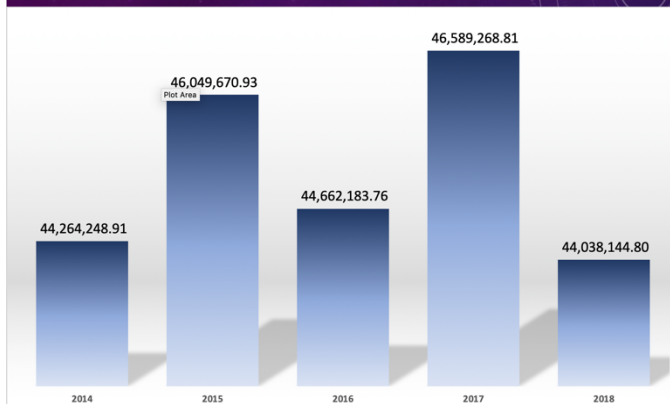
In terms of assets Prestige Bank is top 64 overall, 3rd in Laguna.



The Bank's total capital now stands at 229.8 Million. This reflects the stability that the Bank holds and is well prepared to face any economic instability or turmoil. Capital increased by 3 Million Increase for this year.

In terms of capital we are number in Laguna and 36th overall among all RBs based on the said BSP statistics

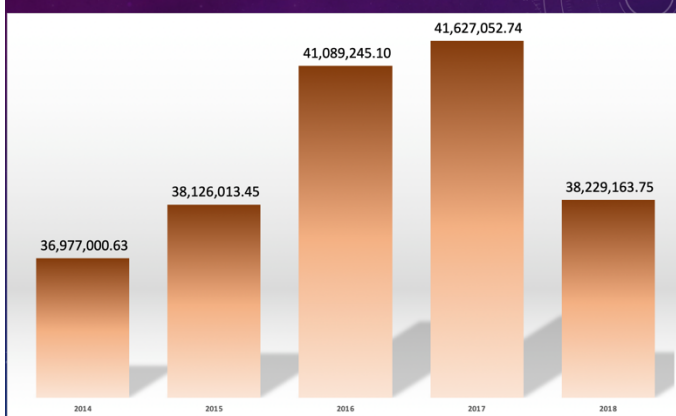
TOTAL OPERATING INCOME



The bulk of total operating income is derived from the Bank's loan interest income, our main source of income.

Total operating income decreased by 2.5 million. This is the effect of losing a big loan account. Also, this is the effect of our deposit placements with other banks with terms longer than one year wherein some years would pass without placements reflecting any interest.

TOTAL OPERATING EXPENSE



Total operating expense decreased by 3.4 Million this year. During the previous years, the Bank has been booking provisions for loan loss to compensate for problematic accounts. As we fervently improved our loan underwriting and procedures, BSP no longer required us to book additional loan loss provisions this year.

Management, however, decided to allot 500,000 as provision for the retirement fund and has been treated as part of operating expense.

INCOME FROM ROPA SALES

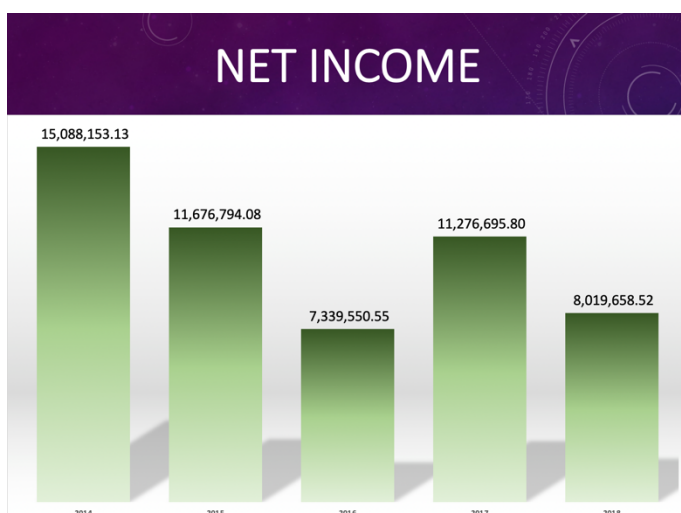
(REAL AND OTHER PROPERTIES ACQUIRED)



The Bank was able to sell three (3) ROPAs this year that earned us 2.2 million net of carrying amount. Although the Bank could have sold more if not for the slow judicial process which has impeded the sale of other properties.

ROPAs sold for 2018 are as follows:

| | | |
|--------------|--------------------------|------------|
| 1/5/18 | Villa Carolina, Antipolo | 1.8 |
| 2/15/18 | San Isidro, Malvar | 0.4 |
| 4/3/18 | Metroville, Sta. Rosa | <u>1.0</u> |
| TOTAL | | 2.2 |



For 2018, in spite of all the challenges, the Bank registered a net income of 8 million. Well enough to keep the Bank above water and provide enough dividends for the stockholders.

Net income is supposed to be at 8.5 million. However, the Bank decided to provide 500,000 to the retirement fund to prepare the funds for nearing retirees. Without a retirement fund, once an employee retires, it is treated as a direct expense,

c. Targets vs. Performance

| | 2017 | TARGET | 2018 |
|----------------------|----------------|--------|----------------|
| LOANS | 337,171,025.38 | 362 M | 315,251,431.35 |
| DEPOSITS | 386,245,872.50 | 408 M | 386,584,908.88 |
| INTEREST INCOME | 42,419,884.17 | 45M | 38,381,536.23 |
| NON-INTEREST INCOME | 4,169,384.64 | 5.2M | 5,656,618.57 |
| INTEREST EXPENSE | 3,170,963.83 | 3.6 M | 3,162,052.16 |
| NON-INTEREST EXPENSE | 35,051,310.06 | 36M | 31,130,350.13 |
| NET INCOME | 11,276,695.80 | 14.5M | 8,019,658.29 |

d. Plans and Programs

The President laid out the general overview of the bank's plans and programs for the year 2019:

- Assess and Develop Fintech products and services
- Calamba Branch renovation for better efficiency – plus rental income
- Seek external legal counsel (collaborating counsel) to expedite legal impediments
- Continue to deploy Staff to seminars and trainings
- Continue Branch improvement
 - Installing LCD Screens show Product offerings
- Initiate Cebuana Lhuiller System (money remittance) (Next month)
- Update billboard
- Financial – earn more from HTM (while interest rates are high)
- Continue Service charge
- Explore possibilities of more syndicated loans
- Aggressive campaign of Salary Loans and Pension Loans

4. Risk Management

a. Risk Management Culture and Philosophy

LPBRB recognizes that risks are inevitable but losses are optional in its operations. It is the Bank's philosophy that risk is better managed and controlled if it is measured consistently and accurately.

The Bank recognizes that an effective risk management system is a critical component of bank management and a foundation for safe and sound operation. The risk management is a top-down process and shall continually operate at all levels within the Bank. It is important to emphasize that each individual within the Bank has a role and must participate in the process

The Bank adheres to a strong dual-control system and promote the culture of risk awareness and not risk aversion.

b. Risk Appetite and Strategy

Throughout its history, LPBRB has maintained a conservative risk profile. It is central to our business and strategy. The following principles express the Bank's encompassing risk appetite and fundamentally drive how risks are managed.

Financial Position:

- Strong capital position, defined by regulatory and internal ratios.
- Liquidity position is over and above industry average.

Operations:

- Operating Efficiency is ideal; (Operating income vs operating expense)
- Almost all loans are fully secured
- Stringent loan requirements
- Modest profit in line with risk taken
- Sustainable earnings while delivering consistent dividends for shareholders
- Consistent increase in capital annually.

However, due to the competitive financial industry, the Bank is looking into shifting the risk appetite for credit as it is apparent that there is a need to be more aggressive in our lending operations. The Bank plans to roll out additional, diversified product more focused on Banking digitalization in the coming years to cater to more clients and target markets. Aside from this, the bank plans to improve the Bank sites through capital funds.

c. Risk Governance Structure and Risk Management Process

The bank has adopted the "three lines of defense structure that includes three distinct units comprised of (1) front line units, (2) independent risk management, and (3) internal audit.

| UNIT | RESPONSIBILITIES | REPORTS TO |
|---|--|-------------------|
| FRONT LINE UNITS (Tellers, Cashiers, Loan Department, BDO, BOO, IT Officer, Admin. Dept., Treasury Dept.) | <p>take responsibility for appropriately assessing and effectively managing all of the risks associated with their activities</p> <p>adhere to all applicable policies, procedures and processes established by independent risk management</p> | CEO BOD |
| INDEPENDENT RISK MANAGEMENT (Chief Compliance Officer) | <p>ensures that the bank's risk governance framework complies with applicable rules and regulations</p> <p>Identifies and assesses, on an ongoing basis, the bank's aggregate risks and use the assessments to determine if actions need to be taken to strengthen risk management or reduce risk;</p> <p>Establish and adhere to procedures and processes to ensure compliance with its risk policies;</p> | CEO BOD |
| INTERNAL AUDIT (Audit Department) | <p>Establish and adhere to an audit plan that will evaluate the bank's risk profile, emerging risks, and issues, and rates the risk presented by each front-line unit, product line, service, and function and that is periodically reviewed and updated;</p> <p>Report in writing conclusions and issues and recommends to the board's audit committee and, in the process, determine (a) the root cause of issues and whether it has an impact on the Bank (b) the effectiveness of front line units and independent risk management in identifying and resolving issues in a timely manner</p> <p>Identify and communicate to the board's audit committee significant instances where front line units or independent risk management are not adhering to the risk governance framework</p> | AUDIT COMITTEE |

d. Money Laundering / Terrorist Financing Risk Management

LPBRB believes that Money Laundering (ML) / and Terrorist Financing (TF) risk management is an integral part of risk management. This has particular relevance to the overall safety and soundness of the Bank as well as the whole banking system. A sound risk management framework is important as it protects the reputation and integrity of LPBRB as well as the whole international financial system by preventing and deterring the possibility of using the Bank to launder illicit proceeds or to raise or move funds in support of terrorism.

The BOD has appointed the CCO to have overall responsibility for the AMLA function. It is essential to identify and analyze the ML/TF risks present with the bank. Information about ML/TF risk assessment should be communicated to the board in a timely, complete, understandable and accurate manner so that it is equipped to make informed decisions.

Explicit responsibility is allocated to the Audit Committee of LPBRB to approve and oversee the policies for ML/TF risk. Implementing functions have been delegated to three separate departments in the bank to ensure proper ML/TF risk management.

5. Corporate Governance

a. Structure and Practices

The Prestige Bank is composed of seven (7) directors with a combination of executive and non-executive directors. The present number of directors is commensurate to the size and complexity of the Bank's operations. Due to the non-complexity of the Bank's business model, the Board has only one (1) Independent Director. All are professionals with competencies and experience in the fields of banking, accounting, economics, microfinance, law and agri-business.

The Board meets at least once a month. All Board meetings are held at Casa Bella, Limcaoco Street, Cabuyao City, Laguna beginning at 1:00p.m. unless otherwise noted. Every member of the BOD shall participate in at least 50% of all meetings of the BOD every year. The absence of a director in more than 50% of all regular and special meetings of the BOD during incumbency is ground for disqualification in the succeeding election. The attendance and participation of members in committee meetings is considered in the assessment of continuing fitness and propriety of each director as member of the board-level committees and the BOD. For 2017, the Board held a total of twelve (12) meetings.

b. Selection Process for the Board

Members of the Board are elected during the annual stockholders meeting and each will hold office for one (1) year, subject to the approved qualification and disqualification criteria established under the Corporate Governance Committee, BSP's fit and proper rule and other existing laws and regulations.

The selection, renewal and appointment processes for directors are adequate that allow the Bank to select from a broad pool of candidates with diverse background and relevant experiences. It is also reflective of the standards set by the board.

Board Qualification

1. Shall be at least twenty-five (25) years of age at the time of election or appointment;
2. Shall be at least a college graduate or have at least five (5) years' experience in business;
3. Must have attended a special seminar on corporate governance for board directors;
4. Must be fit and proper for the position, and in this regard, the following shall be considered: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind, and sufficiency of time to fully carry out responsibilities. In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with Bank's policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies;
5. Must have a practical understanding of the business of the Bank;
6. Must be a member of good standing in the relevant industry, business or professional organizations;
7. The members of the Board of Directors shall possess the foregoing qualifications for directors in addition to those required or prescribed under R.A. No. 8791 and other existing applicable laws and regulations.

c. Board's Overall Responsibility

The Board is primarily responsible for the governance of the Bank, ensuring that the Bank is steadily run in a prudent and sound manner under high standards of honesty, integrity and best practice. It is vested with the fiduciary duties and loyalty and care for which Board members should act on a fully informed basis, in good faith, with due diligence, and in the best interest of the Bank and the shareholders.

The Board overall responsibility includes the following:

1. Define corporate culture and values:
 - a. Code of Conduct or Code Ethics
 - b. Policies and Procedures for Whistle Blowing

- c. Prevent the use of the Bank facilities for criminal/illegal/improper activities, i.e. financial misreporting, money laundering fraud, bribery or corruption.
- 2. Approving the Bank's objectives and strategies and overseeing management's implementation thereof:
 - a. Ensure the Bank's beneficial influence on the economy
 - b. Approve the Bank's strategic objectives and business plans
 - c. Actively engage in the affairs of the Bank
 - d. Approve and oversee the implementation of policies governing major areas of operations
- 3. The board of directors shall be responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel. In this regard, the board of directors shall:
 - a. Be responsible for the appointment/selection of key officers and heads of control functions
 - b. Approve and oversee the implementation of performance standards/remuneration and incentive policies
 - c. Oversee the performance of senior management and heads of control functions
 - d. Establish a succession planning/retirement program for the directors, officers and other critical positions
 - e. Ensure that personnel's expertise and knowledge remain relevant. The board of directors shall provide its personnel with regular training opportunities as part of a professional development program to enhance their competencies and stay abreast of developments relevant to their areas of responsibility.
 - f. Ensure that employee pension funds are fully funded or the corresponding liability appropriately recognized in the books of the BSFI at all times, and that all transactions involving the pension fund are conducted at arm's length terms.
 - g. Conduct and maintain the affair of the Bank within the scope of its authority/effective compliance, existing laws, rules/regulations
- 4. Responsible for approving and overseeing implementation of the Bank's corporate governance framework and structure. In this regard, the board of directors shall:
 - a. Create committees/meet regularly/sound and effective info sharing
 - b. Define risk appetite/risk management compliance
 - c. Regularly review the structure, size and composition of the BOD and Board level committees for balanced membership
 - d. Adopt policies aimed at ensuring that the BOD are able to commit to effectively discharge their responsibilities
 - e. Maintain appropriate records (meeting minutes or summaries of matters reviewed, recommendations/decisions made, dissenting opinions etc) of its deliberations and decisions
 - f. Conduct annual assessment of its performance and effectiveness as a body, the various committees, the CEO, individual directors and the Bank itself.
 - g. Approve an overarching policy on the handling of Related Party Transactions (RPT)
- 5. The board of directors shall be responsible for approving Bank's risk governance framework and overseeing management's implementation thereto, In this regard, the board of directors shall:
 - a. Define the Bank's risk appetite

- b. Approve and oversee adherence to the risk appetite statement (RAS), risk policy, and risk limits.
- c. Oversee the development of, approve, and oversee the implementation of policies and procedures relating to the management of risks throughout the Bank
- d. Define organizational responsibilities following the three lines of defense framework. The business line functions will represent the first line of defense, the risk management and compliance functions for the second line of defense, and the internal audit function for the third line of defense.
 - The board of directors shall ensure that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively
 - The board of directors shall ensure that non-executive board members meet regularly, with the external auditor and heads of the internal audit, compliance and risk management functions other than in meetings of the audit and risk oversight committees, in the absence of senior management.

d. Chairman of the Board

The Chairman of the Board of Directors' primary duty is to provide leadership and direct the Board towards the realization of the duties and responsibilities of its members while ensuring that the Bank's management are working towards the attainment of set goals and efficient execution of its agreed strategies. The Chairman carries the following duties and responsibilities:

- a) Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- b) Ensure a sound decision making process;
- c) Encourage and promote critical discussion;
- d) Ensure that dissenting views can be expressed and discussed within the decision-making process;
- e) Ensure that members of the board of directors receives accurate, timely, and relevant information;
- f) Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
- g) Ensure conduct of performance evaluation of the board of directors at least once a year.

e. Board Composition

i. Type of Directorship

| NAME OF DIRECTOR | TYPE OF DIRECTORSHIP |
|---------------------------------|---------------------------------------|
| GUILLERMO D. BELLA | Chairman of the Board – Non-Executive |
| GILBERT FRANCIS B. BELLA | Member – Executive |
| JOSEFINA B. BELLA | Member – Non-Executive |
| MARIA ISABEL A. DELFINO | Member – Non-Executive |
| CONCHITA A. DELFINO | Member – Non-Executive |
| JOSE MARIA C. MERCADO | Member – Non-Executive |
| MARTIN A. CLAUDIO | Member – Independent Director |

ii. List of Stockholders

| NAME OF DIRECTOR | NO. OF SHARES | VOTING% |
|--------------------------------|---------------|---------|
| Guillermo D. Bella | 18,681 | 18.396% |
| Gilbert Francis Bella | 15,879 | 15.637% |
| Jose Ma. C. Mercado | 15,301 | 15.067% |
| Angela Marie Bella | 6,077 | 5.984% |
| Gino Paolo Bella | 6,077 | 5.984% |
| Katrina Marie Bella | 6,077 | 5.984% |
| Teodora G.Hemedes | 4,082 | 4.020% |
| Louis Anthony Delfino | 2,717 | 2.676% |
| Isabelita Alon | 2,716 | 2.675% |
| Rory Magno Delfino | 2,716 | 2.675% |
| Roland Rex Bella | 2,035 | 2.004% |
| Ma. Isabel Delfino | 1,887 | 1.858% |
| Mariano A. Delfino | 1,725 | 1.699% |
| Obdulia Espejo | 1,524 | 1.501% |
| Pollie L. Deza | 1,404 | 1.383% |
| Ma. Gracia A. Delfino | 1,151 | 1.133% |
| Ma. Luisa D. Gregorio | 1,151 | 1.133% |
| Fr. Gabriel A. Delfino | 1,150 | 1.132% |
| Ma. Regina D. Rosella | 1,150 | 1.132% |
| Maria Angeles V. Mercado | 1,122 | 1.105% |
| Diosdado G. Hemedes | 959 | 0.944% |
| Marianne Joy M. Delfino | 864 | 0.851% |
| Ma. Susanna B. Delfin | 563 | 0.554% |
| Bernardio H. Bailon | 561 | 0.552% |
| Erico H. Bailon | 561 | 0.552% |
| Leoncio H. Bailon | 561 | 0.552% |
| Jeanette B. Zulueta | 556 | 0.548% |
| Inocencio B. Deza, Jr. | 476 | 0.469% |
| Aludia P. Tomas | 435 | 0.428% |
| Catherine Dianne Reyes-Delfino | 288 | 0.284% |
| Cynthia B. Buluag | 262 | 0.258% |
| Myrna Monteverde | 204 | 0.201% |
| Loureen M. Evangelista | 135 | 0.133% |
| Jaime H. Maranan | 100 | 0.098% |
| Jose M. Saturno | 84 | 0.083% |
| Christopher Jeffrey N. Tenorio | 78 | 0.077% |
| Catherine Darlene G. Alimagno | 55 | 0.054% |
| Rico Mauro G. Alimagno | 55 | 0.054% |
| Benigna Lazaga | 48 | 0.047% |
| Erlinda Barriga | 39 | 0.038% |
| Marianne Garcia-Abueg | 39 | 0.038% |
| Zenaida Delfin | 4 | 0.004% |
| Martin A. Claudio | 1 | 0.001% |

| | |
|------------------------------------|------------|
| Capital Share | 100 |
| Common Share Paid up and Issued | 10,155,000 |
| Preferred Share Paid Up and Issued | 56,100 |

f. 2018 Board of Directors

1. GUILLERMO D. BELLA

Chairman of the Board – Non-executive
68 years old, Filipino

Degree/Course : Master in Business Administration
Asian Institute of Management (1973)

AB Humanities and General Studies
Ateneo de Manila University (1971)

Prestige Bank : Director (1979 to present)
Management Consultant (2016 to present)
President/CEO (1979-2015)

Other Institutions :

| | |
|-------------------------|--|
| Gianka Land, Inc. | Chairman of the Board / President (2003-present) |
| Racil Realty, Inc. | Chairman of the Board / President (2003-present) |
| Bell Taft Realty Corp. | Chairman of the Board / President (2017-present) |
| Polimer & Sons Corp | Chairman of the Board / President (1980-Present) |
| Don Mariano Realty Corp | Director (2009-present) |

2. GILBERT FRANCIS B. BELLA

Executive Director
37 years old, Filipino

Degree/Course : Master in Business Administration
Ateneo Professional Schools (2008)

Bachelor of Arts in Political Science
Ateneo de Manila University (2003)

Prestige Bank : Director (2005 to present)
President/CEO (2016 to present)
Administration Manager (2013 to 2015)
Exec. Asst. to the Pres./Corporate Secretary (2005 to 2015)

Other Institutions :

| | |
|-------------------------------|---|
| Paramount Ophthalmics Corp. | Chief Financial Officer (2012 to present) |
| AvvenelT | Treasurer / Director (2016 to 2018) |
| Alphan Farms, Inc | Director (2017 to Present) |
| Gianka Land, Inc. | Director (2003-present) |
| Racil Realty, Inc. | Director (2003-present) |
| Bell Taft Realty Corp. | Director (2017-present) |
| Polimer & Sons Corp | Director (2015-Present) |
| Power Mechanics Auto Services | Propreitor (2003-2008) |

3. MARIA ISABEL A. DELFINO

Non-executive Director
70 years old, Filipino

| | | |
|---|---|--|
| Degree/Course | : | Master in Business Administration Ateneo Graduate School of Business (1981) |
| | | AB Secretarial St. Scholastica College (1971) |
| Prestige Bank | | Director (1991 to present) Administration Manager (1995 to 2012) Technical Assistant (1990 to 1994) |
| Other Institutions | : | |
| Don Mariano Realty Corp. 6 D Realty, Inc. Delfino Realty Devt., Inc. | | Secretary/Treasurer (2009 to present) President (2009 to present) Vice President (2007 to present) |
| 4. LOUIS ANTHONY A. DELFINO | | Non-executive Director Years old, Filipino |
| Degree/Course | : | BS Marketing San Sebastian College (1986) |
| Prestige Bank | : | Director (2018 to present) |
| Other Institutions | : | |
| Colegio De Santa Rosa De Lima, Inc Don Mariano Realty Apelo-Delfino Corporation Joen Food Services | | Chairman of the Board / VP Operations (2019) President (2015-present) President (1999 to present) Marketing Manager (2000 to present) |
| 5. KATRINA MARIE B. BELLA | | Non-executive Director Years old, Filipino |
| Degree/Course | : | LIA-COM Humanities-Marketing Management De La Salle University (1999) |
| Prestige Bank | : | Director (2018 to present) |
| Other Institutions | : | |
| Gianka Land, Inc. Racil Realty, Inc. Bell Taft Realty Corp. Stores Specialists, Inc. Directories Phils. Corp. | | Corporate Secretary (2003-present) Corporate Secretary (2003-present) Corporate Secretary (2017-present) Merchandise Manager (2005-2008) Sales Executive (1999-2003) |
| 6. JOSE MARIA C. MERCADO | | Independent Director 60 years old, Filipino |

| | | |
|-----------------------------------|---|--|
| Degree/Course | : | MS in Food Science University of the Philippines (1984) |
| | | BS Agriculture University of the Philippines (1980) |
| Prestige Bank | : | Independent Director (2002 to 2017) |
| Other Institutions | : | |
| South Legacy Realty, Inc. | | President (1998 to present) |
| Goldmunzen, Inc. | | Director/Vice President (2005 to present) |
| Fudchafen, Inc. | | Vice President (2014 to present) |
| Tropical Blooms | | Manager (1989 to 1993) |
| RAM Food Products, Inc. | | RD Manager (1984 to 1986) |
| Encarnacion Village | | Manager (1980 to 1984) |
| Casmer Trading International | | Manager (1982 to 1984) |
| 6. MARTIN A. CLAUDIO | | Independent Director 66 years old, Filipino |
| Degree/Course | : | BSC - Marketing Jose Rizal College (1982) |
| Work Experience | : | |
| Prestige Bank | : | Independent Director (2004 to present) |
| Other Institutions | : | |
| Truck Bus Import Export, Inc. | | OIC Special Accounts (2012 to present) |
| Bataan Automotive Corp. | | Vice President for Marketing (2005 to 2009) |
| Roqsons Industrial Sales, Inc. | | Vice President for Marketing (2001 to 2005) |
| Truckmart Phils., Inc. | | Director (1999 to 2000) |
| Ticom Company, Inc. | | EVP for Marketing (1990 to 1999) |
| Hyatt Agro Industrial Trading | | Marketing Officer (1988 to 1990) |
| Bel-Air Sales and Services Center | | Shop Manager (1979 to 1988) |
| Nippodenso Phils., Inc. | | Sales Manager (1977 to 1979) |

g. Board Level Committees & Function

At a minimum the Bank due to its simple/non-complex business model, constitutes only the Audit Committee. The Audit Committee is composed of three (3) members of the board who are non-executive directors, including the Chairperson who is an independent director.

Duties and Responsibilities of the Audit Committee

1. Oversee the financial reporting framework – oversee the financial reporting process, practices, and controls; ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information reports.
2. Monitor and evaluate the adequacy and effectiveness of the internal control system – oversee the implementation of internal control policies and activities; ensure the periodic assessment of the internal control system to identify the weaknesses and evaluate its robustness.
3. Oversee the internal audit function – oversee the appointment / selection / remuneration / dismissal of internal auditor; review and approve the audit scope and frequency. Shall meet with the Head of the Internal Audit and such meeting shall be duly minuted/documentated; review and approve the performance and compensation of the Head of IA, and the budget of the internal audit function
4. Oversee the external audit function – responsible for the appointment, fees and replacement of external auditor; review and approve the engagement contract/scope of audit which should likewise cover areas specifically prescribed by the BSP and other regulators.
5. Oversee implementation of corrective actions – shall receive key audit reports, ensure that senior management is taking necessary and timely corrective actions to address audit findings.
6. Investigate significant issues/concern raised – shall have the explicit authority to investigate, full access to and cooperation of management; full discretion to invite any director/officer to attend its meetings.
7. Establish whistleblowing mechanism – which officers and staff shall, in confidence, raise concerns about improprieties or malpractices in financial reporting, internal control, auditing, or other issues to persons or entities; ensure independent investigation, appropriate follow-up action and resolution.

h. Directors' Attendance at Board and Committee Meetings for 2018

| NAME OF DIRECTORS | Board Meetings | | Audit Committee Meetings | |
|--------------------------|----------------|------|--------------------------|------|
| | Attended | % | Attended | % |
| GUILLERMO D. BELLA | 12 | 100% | | |
| GILBERT FRANCIS B. BELLA | 12 | 100% | | |
| KATRINA MARIE B. BELLA* | 11 | 100% | 15 | 100% |
| MARIA ISABEL A. DELFINO | 11 | 92% | | |
| LOUIS ANTHONY A. DELFINO | 10 | 100% | | |
| JOSE MARIA C. MERCADO * | 12 | 100% | 17 | 100% |
| MARTIN A. CLAUDIO * | 12 | 100% | 17 | 100% |

KATRINA MARIE BELLA ELECTED DIRECTOR FEB 2018

LOUIS ANTHONY DELFINO ELECTED DIRECTOR MARCH 2018

***Audit Committee Members for 2018**

i. List of Executive Officers/Senior Management

| NAME | POSITION | QUALIFICATION | AGE | NATIONALITY |
|--------------------------|--------------------------------|------------------------------|-----|-------------|
| Gilbert Francis B. Bella | President/CEO | BA – Political Science / MBA | 37 | Filipino |
| Jaime H. Maranan | General Manager/COO | BSA – Agriculture | 70 | Filipino |
| Erwin O. Escuzar | Treasury Manager/FA/Asst GM | BS – Accounting | 39 | Filipino |
| Maria Theresa C. Abaygar | Compliance Officer/ Corp. Sec. | BS – Mathematics /MBA | 46 | Filipino |
| Dorisa B. Caro | Chief Loan Officer | BSC – Management | 58 | Filipino |
| Maribel C. Narvasa | Chief Accountant | BS – Accounting | 41 | Filipino |
| Carmelo M. Palad | Appraiser/Credit Investigator | BSBA – Accounting | 53 | Filipino |
| Pacita M. Dizon | Administration Manager | BSC – Accounting | 56 | Filipino |
| Arnel N. Nidea | Internal Auditor | BSC – Management | 43 | Filipino |
| Alex L. De Dios | IT Officer | BS – Computer Science | 44 | Filipino |
| Jennifer R. Salonga | Branch Operations Officer | BS – Accounting | 50 | Filipino |
| Nancy N. Garcia | Branch Operations Officer | BSC – Accounting | 52 | Filipino |
| Jeanette C. Velasquez | Branch Operations Officer | BSC – Accounting | 48 | Filipino |
| Praxedes F. Sigue | Bank Development Officer | BS – Business Administration | 56 | Filipino |
| Ma. Teresa H. Palad | Bank Development Officer | BSC – Accounting | 52 | Filipino |

j. Performance Assessment Program

Board

The Board self-assessment process is undertaken annually to measure board efficiency against the goals that the Board has set at the beginning of the year. Further, the assessment provides the Board and its committees valuable information that can be used as a guiding tool in succession planning, objective setting as well as analysis of whether they have accomplished the purpose for which they were established and to act to address any concern emanating there from.

The Self Assessment Evaluation for the board was modified in 2017 and is divided into seven (7) categories namely: (1) Corporate Governance (2) Capital Management (3) Credit Management (4) Liquidity Management (5) Asset/Liability Management (6) Business Decision Evaluation (7) Risk Management/Internal Controls. The Assessment form is answerable by YES, if being implemented/practiced, NO, if not being practiced/implemented and N/A if not applicable. The Corporate Secretary prepares the overall report and presents this to the Board for discussion, including the recommended actions and focus areas to improve effectiveness.

Senior Management

The Bank evaluate the performance of the Senior Management on a semi-annual basis through the adopted Performance Evaluation Form which comprised of five (5) performance evaluation factors, namely: (1) Company-wide Target Attainment (2) Specific Job Performance (3) Competency and Ability (3) Interpersonal Skills (5) Administrative Compliance. Senior Officers are required to discuss performance and development feedback with the President/CEO. The adoption of the evaluation system aims to the continuous development of the Senior Officers which contributes to improved performance, employee engagement and positive business results.

k. Orientation and Education Program

All first-time Directors have attended a special seminar on corporate governance for board of directors. Orientation for first-time Directors begins immediately after they are selected and before their first Board meeting. They are furnished with a copy of the general responsibility and specific duties and responsibilities of the Board and of a Director. Directors are required to certify under oath that they have received copies and fully understand and accept the general responsibility and specific duties. The certification is also submitted to BSP together with a certification that he or she has all the prescribed qualifications and none of the disqualifications after their election.

The Bank provides an in-house seminar/refreshers course on corporate governance annually. Through this continuing education, the Directors enhance their skills, knowledge and understanding of the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes.

For Senior Management, the Bank provides seminar/trainings in line with the individual officer's area of responsibility through RBAP, BSP and other regulators. The objective is to update/enhance the knowledge of the Senior Officers in line with their duties/functions as against regulatory issuances/policy guidelines.

l. Retirement and Succession Policy

Senior Management

The Bank values the contributions made by its Officers during their service with the Bank and provides benefits at their retirement.

a. Normal Retirement

A Senior Officer who has reached the age of sixty (60) and has rendered at least five (5) years of continuous service to the Bank, is entitled to the full normal retirement benefit equivalent to the amount of his/her one (1) month gross salary times the number of service.

b. Early Retirement

Upon reaching the age of fifty (50) and upon completion of no less than ten (10) years of service, a Senior Officer is entitled to the following applicable benefits. The amount is computed based on the last monthly gross salary times the number of years times the percentage applicable.

| RETIREMENT AGE | PERCENTAGE |
|----------------|------------|
| 50 | 60% |
| 51 | 64% |
| 52 | 68% |
| 53 | 72% |
| 54 | 76% |
| 55 | 80% |
| 56 | 84% |
| 57 | 88% |
| 58 | 92% |
| 59 | 96% |

c. Late Retirement

With the approval of the Board, a Senior Officer may continue to work beyond the normal retirement age and shall be entitled to the normal retirement benefit computed from the date of hiring to the actual date of his/her retirement. The continuity of the tenure shall be subject to the approval of the Board on a year-to-year basis.

SUCCESSION PLAN

Board

Succession planning in the Board is well in place, wherein vacancies in the Board may be filled up by appointment or election of the remaining directors, if still constituting a quorum; otherwise, the stockholders shall fill such vacancy in a regular annual meeting or special meeting called for the purpose.

Senior Management

To ensure replacements for key job incumbents in the Bank, the board adopt policy guidelines covering Senior management positions. The succession planning program desires to: (1) Identify high-potential employees capable of rapid advancement to positions of higher responsibility than

those they presently occupy; (2) Ensure the systematic and long-term development of individuals to replace key job incumbents as the need arises due to deaths, disabilities, retirements, and other unexpected losses; (3) Provide a continuous flow of talented and skilled people to meet the Bank's management needs.

During the first officers' meeting of the year, the previous year's succession planning efforts is reviewed and revised for the present year's succession program. Throughout the year, officers periodically visit the succession program to assess in developing successors throughout their areas of responsibility. As need arises, the Succession policy is accessed as a source of possible successors in the organization.

m. Remuneration Policy

Board

The directors receive fees and bonuses. Executive directors receive salaries, bonuses and other usual Bank benefits. Executive directors are entitled to fixed compensation and performance-based bonuses plus fees for attendance in meetings. Non-executive directors receive fees in form of honoraria for attendance in meetings of the Board and its committees. The directors have no other compensation plan or arrangement with the Bank.

Senior Management

The Bank provides Senior Officers fair and equitable remuneration commensurate to the individual's qualifications and experience, nature of the job, position, and level of responsibility. The salary and benefit package of the Bank's Senior Officers including the President/CEO is designed to attract, motivate and retain a high-caliber workforce. The Bank's compensation package is reviewed regularly and benchmarked against competition through benefit surveys to ensure its competitiveness vis-à-vis industry and other market considerations.

The Bank aims to achieve a performance-driven work culture by providing meaningful rewards for performance. Thus, the Bank grants semi-annual performance bonus (non-guaranteed) based on the Bank's overall performance, Group and individual performance.

n. Policies and Procedures on Related Party Transactions

The board of directors has the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

Senior management implements appropriate controls to effectively manage and monitor RPTs on a per transaction and aggregate basis. Exposure to related parties is monitored on an ongoing basis to ensure compliance with the Bank's policy and BSP's regulations.

It is the policy of the Bank to ensure that related party transactions are all entered into at arm's length standard. These transactions are made and entered on the same terms and conditions as transactions with other clients of comparable risks. RPT transactions go through the same process applicable to ordinary or unrelated party transactions as set forth in the Bank's policy guidelines. The Bank has adopted a Related Party Transaction Policy approved by the Board of Directors and strictly implemented by the Bank.

The Audit Committee is responsible for assisting the Board in fulfilling its governance responsibilities on related party transactions (RPTs), as specified in the Related Party Transaction Policy, by (1) Evaluating existing relations between and among businesses and counterparties for proper identification and monitoring of relationships; (2) Evaluating all material RPTs to ensure that these are not undertaken on more favorable economic terms; (3) Ensure appropriate disclosure; (4) Periodic reporting to the Board; (5) Ensure that transactions with related parties are subject to periodic audit process and (6) Overseeing the implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs, including periodic review of RPT policies and procedures.

| Related Counterparty | Relationship Between the Parties | Transaction Date | Type of TXN | Amount/Contract Price | Terms | Rationale for Entering to the Transaction |
|--------------------------------------|--|--|-------------------|--|---|--|
| GILBERT FRANCIS B. BELLA (DOSRI) | Stockholder/ Director/ President/CEO | 8/1/2016 under BR No. 2016-094 dated 7/21/2016 | Lease Contract | 89,792.81 with 5% annual escalation | Monthly basis (5- year contract) | The BOD considered the low rental fee as compared to other commercial building / property located within the vicinity or nearby areas within Cabuyao City. The building is spacious with wide parking space for clients. The property is strategically located within the city's town proper. The building is not prone to fire and even robbery. |
| ANGELA MARIE B. PAGULAYAN (DOSRI) | Stockholder | 1/1/2017 under BR No. 2016-130 dated 11/2/2016 | Rental | 1,000 Per usage | Per use basis | Casa Bella - owned by Ms. Pagulayanis being used for BOD and Officers' meetings, conferences with BSP examiners and other regulatory agencies, Christmas party and other occasions. The BOD considered the low rental fee as compared to other commercial buildings or restaurants within the first district of Laguna. The building is spacious, fully air-conditioned and with wide parking space for BOD members and other guests. Travelling is very convenient since the location is adjacent to the Bank's Head Office. |

o. Self -Assessment Function

Internal Audit

Our Internal Audit Division is an independent body that supports the Audit Committee to meet the functions set forth in the Internal Audit Charter that includes transaction testing and assessment of specific internal control procedures; and the examination and evaluation of the following: (1) Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential risks; (2) Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services; (3) Review of the systems and procedures of safeguarding the Bank's physical and information assets; (4) Review of the compliance system and the implementation of established policies and procedures; (5) Review of areas of interest to regulators such, as among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions; liquidity level; regulatory and internal reporting.

This unit reports directly to the Board through its Audit Committee. It collaborates with, Compliance Office and external auditors, and for a comprehensive review of risks and compliance in the Bank. The internal audit function as empowered by the Internal Audit Charter includes free access to all records, properties and personnel. The Audit Committee reviews the internal audit function, including its independence and the authority of its reporting relationships. The Internal Audit Division continuously improves the capabilities of its auditors by attending seminars on auditing techniques, internal audit control system and other auditing courses.

The Internal Audit Division is headed by the Internal Auditor who is appointed by the Board and reports functionally to the Board of Directors through the Audit Committee and administratively to the President/CEO.

The Audit Committee recommends to the Board the appointment of a Bangko Sentral accredited external auditor for the purpose of preparing or issuing an audit report or related work. It also assesses the external auditor's effectiveness, independence and objectivity, ensuring that key partners are rotated at appropriate intervals. The Committee also reviews the external auditor's annual plan, scope of work, and, in consultation with management, approves the external auditor's term of engagement and audit fees.

Compliance Function

The compliance function is independent from the business activities of the Bank. The Compliance Office ensures that the Bank and its branches comply with all the laws, regulations, external and internal policies, corporate governance and other best practices in the implementation of its business operations. Its functions include the following: (1) Advising the board of directors and senior management on relevant laws, rules and standards, including keeping them informed on developments in the area; (2) Apprising Bank personnel on compliance issues, and acting as a contact point within the Bank for compliance queries from Bank personnel; (3) Establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of

conduct and practice guidelines; (4) Identifying, documenting and assessing the compliance risks associated with the Bank's business activities, including new products and business units; (5) Assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments; (6) Monitoring and testing compliance by performing sufficient and representative compliance testing; (7) Maintaining a constructive working relationship with the Bangko Sentral and other regulators.

The Compliance Office, headed by the Chief Compliance Officer, reports directly to the Board of Directors. The Compliance Office oversees the implementation of the compliance program as well as its related policies and guidelines. It ensures that compliance issues are expeditiously resolved. The CCO informs Senior Management and the Board of Directors of the ongoing implementation and assessment of the effectiveness and appropriateness of the compliance program and any matters or issues relating thereto or emanating therefrom.

p. Dividend Policy

Dividends are declared and paid out of unrestricted retained earnings of the Bank at such intervals as the Board of Directors may determine and in accordance with the provisions of law and the regulations of the BSP and the SEC. The payment of dividends depends on the Bank's earnings, cash flow, financial condition, regulatory requirements for capital and other factors. The Board of Directors may, at any time, modify the Bank's dividend payout ratio depending on the results of operations and future projects and plans of the Bank. Cash dividends are subject to approval by at least a majority of the Board of Directors. For 2018, the Bank declared 50% of Subscribed Capital.

q. Consumer Protection Practices

The Bank fully supports the policy of the State to protect the interest of the consumers, promote their welfare and to establish standards of conduct for the banking industry. Our vision is to be the leading rural bank in Laguna and the country as well. In doing this, the Bank's task is to gear up for intense competition against the bigger banks. In achieving our vision and mission it is imperative that the Bank operates within the ethical business practices that govern the conduct of the Bank in dealing with its customers. The Bank's paramount goal is to provide excellent, committed, transparent, fair, honest and dedicated services to its customers that will translate into prestige, profitability and stability of the Bank.

The Bank has developed and adopted its Financial Consumer Protection Manual (FCPM) with the following objectives:

1. To protect the financial rights of its clients which include among others, (a) right to information, (b) right to choose, (c) right to redress, (d) right to education.
2. To maintain good relationship of the Bank with its clients (depositors, loan borrowers and other customers) over a long period of time.
3. To promote transparency and better understanding and appreciation of banking products and services;

The FCPM shall be the guiding document of the Bank to deliver the required level of fair treatment, honesty, transparency and commitment to its customers.

Roles and Responsibilities of the Oversight Bodies

BOARD OF DIRECTORS

1. The Board of Directors (BOD) has the ultimate responsibility for the level of customer risk assumed by the Bank. Accordingly, the Board approves the Bank's overall business strategies and significant policies, including those related to managing and taking customer risks.
2. The Board of Directors takes steps to develop an appropriate understanding of the customer risks the Bank faces through briefings from auditors and experts external to the organization.
3. The board of directors provides clear guidance regarding the level of customer protection risk acceptable to the Bank and ensures that senior management implements the procedures and controls necessary to comply with the policies that have been adopted.
4. The BOD is responsible for developing and maintaining a sound Customer Protection Risk Management System that is integrated into the over-all framework for the entire product and service life-cycle.
5. Each director has a level of knowledge commensurate with the nature of his or her role in managing the Bank's customer protection program. This can be done through attendance to trainings and seminars, interaction with experts and regulatory personnel knowledgeable to this line.
6. The Board reviews and approves appropriate customer protection policies to limit risks inherent in the Bank's significant business lines, activities, or products, including ensuring effective oversight of any third-party providers that provide products and services for the Bank.
7. The Board periodically reviews and approves customer protection risk exposure limits to conform to any changes in the Bank's strategies and addresses the extent of protection assumed by the customers when new products are introduced.

SENIOR MANAGEMENT

1. Senior management is responsible for implementing a program to manage the customer compliance risks associated with the Bank's business model, including ensuring compliance with laws and regulations on both a long-term and a day-to-day basis. Accordingly, management should be fully involved in its activities and possess sufficient knowledge of all major products to ensure that appropriate risk controls are in place and that accountability and lines of authority are clearly delineated.

2. Senior management also is responsible for establishing and communicating a strong awareness of, and need for, effective customer protection risk controls and high ethical standards.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

1. The BOD and Senior Management periodically review the effectiveness of the Customer Protection Risk Management System (CPRMS) including how findings are reported and whether the audit mechanism in place enable adequate oversight.
2. The BOD and Senior Management must ensure that sufficient resources are devoted to the customer protection program.
3. They must be certain the FCP weaknesses are properly addressed and corrective actions are taken in a timely manner.
4. The Board and Senior Management are sufficiently familiar with and are using adequate record keeping and reporting systems to measure and monitor the major sources of customer risk to the Bank.
5. The Board and Senior Management ensure that the depth of staff resources is sufficient to operate and manage the Bank's customer protection activities soundly and that employees have the integrity, ethical values, and competence that are consistent with a prudent management philosophy and operating style.
6. The Board and Senior Management anticipate and respond to customer protection risks that may arise from changes in the Bank's competitive environment and to risks associated with new or changing regulatory or legal requirements.

The Customer Protection Risk Management System (CPRMS) is embedded in the Bank's FCPM by which a Bank can identify, measure, monitor and control customer protection risks inherent in its operations. The risks belong to the financial customer or the Bank. The CPRMS is proportionate to the size, structure and complexity of Prestige Bank's operations. It provides the foundation for ensuring the Bank's adherence to CP standards of conduct and compliance with customer protection laws, rules and regulations in order to prevent risk to the Bank and any harm or financial loss to the customer.

The Boards of Directors has ultimate responsibility for the level of risk taken by the Bank. Accordingly, board members has approves the overall customer protection policies of the Bank, including those related to managing and taking risks, and also ensure that senior management is fully capable of managing the activities that the Bank conducts. Senior management is responsible for implementing strategies in a manner that limits the risk associated with each strategy and ensures compliance with laws and regulations on both a long-term and day-to-day basis. Management is fully involved in the activities of the Bank and possessed sufficient knowledge of all major business lines to ensure that appropriate policies, controls, and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated.

The Bank identifies its customer protection risks in each principle through analyzing its effects to the Bank and the customer. The following were specifically recognized or identified risks by the Bank under the different principles or protection standards of consumer protection: (1) Oversight Bodies (2) Disclosure and Transparency (3) Conflict of Interest (4) Protection of Customer Information (5) Fair Treatment (6) Remuneration Structure (7) Effective Recourse (8) Financial Education and Awareness .

The Bank recognizes the importance of measuring risks in relation to the degree and extent of risks in financial customer protection. In this view, the Bank has established two (2) approaches in measuring the effects of failure to follow the required protection standards or principles. The Bank has policies and procedures to address the different identified risks of financial customer protection. These are in-placed in different standards to protect the customer during the life-cycle of his/her relationships with the Bank. They are embedded in different aspects of operations of the Bank as emboldened either in Bank's manuals, forms, advertisements, websites or posters installed at the lobby or other places as the Management deems fit.

CUSTOMER ASSISTANCE MANAGEMENT SYSTEM (CAMS)

The Board of Directors has the full responsibility in the oversight supervision of the Customer Assistance Management System (CAMS). The Senior Management is primarily responsible in the proper implementation of the CAMS. It shall take reports and recommended actions/solutions from the Officer of the GM/COO and Branch Operations Officers (BOOs).

The Bank follows its existing operational channel in handling customer complaints. It has designated its BOO to serve as the Customer Assistance Officers (CAOs), while the General Manager/COO (GM/COO) is designated Head of the Customer Assistance Officers. The GM/COO then report to the Senior Management or the President for the latter to present and discuss the report on complaints to the Board which will provide action based on the recommendations of the GM/COO.

Customer Assistance Process

Any simple concern (complaint or request) shall be processed by the Bank within seven (7) days and the reply shall be issued within two (2) days after the resolution is completed. Below is process and timelines for simple concern

In 2018, the Bank did not receive complaints regarding violations of customer financial rights.

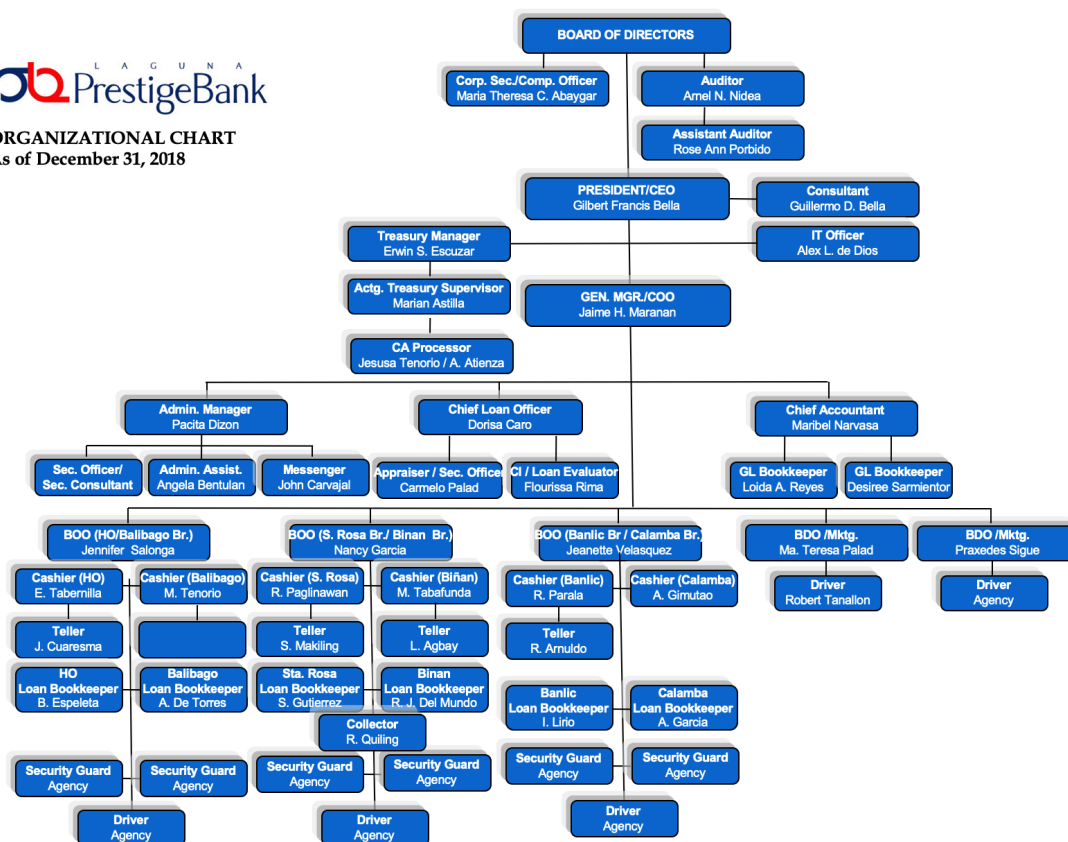
| STEP | PROCEDURE | RESPONSE TIME | PERSON IN CHARGE | FORMS |
|------|--|---------------|---|----------------|
| 1 | Approach the Customer Assistance Officer (CAO) | 1 minute | Asst. GM for Branch Operations or Branch Operation Officers | |
| 2 | Fill-out the Complaint Form | 30 minutes | -do- | Complaint Form |
| 3 | Submit the Complaint Form to Customer Assistance Officer | 1-3 minutes | -do- | Complaint Form |
| 4 | Refer the Complaint to the Head CAO | Within 1 Day | -do- | Complaint Form |
| 5 | Investigate the complaint or request | Within 2 Day | -do- | |
| 6 | Analyze the nature of complaints and prepare the recommended solution(s) | Within 4 Days | General Manager/COO (Head CAO) | Memo |
| 7 | Review and approve the recommended solutions | Within 7 Days | President | Memo |
| 8 | Provide official reply to the Customer. | Within 9 Days | GM/COO or Asst. GM for Branch Operations or Branch Operation Officers | Letter |

6. Corporate Information

a. Organizational Structure




ORGANIZATIONAL CHART
As of December 31, 2018



b. Products and Services

| | | |
|---|---|--|
| <h3>BUSINESS LOANS</h3> <p>Allow us to help you achieve your dreams with our competitive loan rates, flexible terms and fast approval.</p> <h4>Term Loan</h4> <p>One-time fund release available for purpose of financing long-term investments.</p> <ul style="list-style-type: none"> • Purchase new machinery and equipment • Expansion/modernization of facilities • Purchase of property for expansion • For project financing <h4>Advanced Interest Loan</h4> <p>An interest-only loan with a fixed rate of interest, a duration of one year, and interest payments due at the beginning of each period. Principal to be paid monthly on a staggered basis.</p> <h4>Ready Cash Loan</h4> <p>A revolving credit line which gives you the flexibility to access needed funds quickly and conveniently.</p> <ul style="list-style-type: none"> • Acquisition of raw materials, supplies, inventory, etc. • Used to augment operating and working capital requirements. | <h3>PERSONAL LOANS</h3> <p>Financing assistance for the following loan purpose:</p> <ul style="list-style-type: none"> • Tuition / Education • OFW Loans / Placement Fee • Medical Emergencies • Debt Consolidation <h3>HOME LOANS</h3> <ul style="list-style-type: none"> • Purchase of House and Lot • Construction of House • House Renovation / Home Improvement <h3>AUTO LOANS</h3> <ul style="list-style-type: none"> • Purchase of a brand new or pre-owned car. <h3>PENSION LOANS</h3> <ul style="list-style-type: none"> • If you are an SSS Pensioner, our product allows you to obtain the needed cash for your medicine and other emergencies. <h3>OTHER LOANS</h3> <ul style="list-style-type: none"> • Back-to-Back Loan • Teacher's Loan • Salary Loan | <h3>DEPOSIT PRODUCTS</h3> <p>Open a personal Savings or Checking Account that suits your needs.</p> <h4>Savings Account</h4> <p>Our Savings Account Product is an interest-earning product that comes with a passbook for easy monitoring.</p> <h4>Current Account</h4> <p>Avail our current account product for check issuances to enjoy easy access to your money. Take advantage of the low maintaining balance.</p> <h4>Prestige Savings Time Deposit</h4> <p>Boost your savings strategy with our PSD. Earn bigger and faster with higher yielding interest rates.</p> <h3>OTHER SERVICES</h3> <ul style="list-style-type: none"> • Money Remittance • Life Insurance • Non-life Insurance • ATM / POS Transactions • SSS Authorized Agent |
|---|---|--|





c. Website and pages

Website - www.prestigebank.com.ph

Facebook - www.facebook.com/prestigebank/

Instagram - [prestigebank](https://www.instagram.com/prestigebank)

d. List of Banking Units

| | | |
|-----------------------------------|---|--|
| Head Office/Main Branch Laguna | : | Corner JP Rizal and Limcaoco Streets, Cabuyao City, Tel. no. (049) 531-2006, (049) 531-4834, (049) 304-7294 |
| Sta. Rosa Branch | : | Rizal Boulevard, Tagapo, Sta. Rosa City, Laguna Tel. no. (049) 302-0673 |

| | | |
|-----------------|---|--|
| Banlic Branch | : | National Highway, Banlic, Cabuyao City, Laguna Tel. No. (049) 304-0230 |
| Biñan Branch | : | National Highway, San Antonio, Biñan City, Laguna Tel. No. (049) 511-3154 |
| Balibago Branch | : | National Highway, Balibago, Sta. Rosa City, Laguna Te. No. (049) 302-0672 |
| Calamba Branch | : | National Highway, Parian, Calamba City (049) 306-2043 |

Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

AUDITED FINANCIAL STATEMENTS (AFS)

December 31, 2018

This AFS includes the following basic Financial Statements:

Statement of Financial Position (Balance Sheet)
Statement of Income and Other Comprehensive Income
Statement of Changes in Equity
Statement of Cash Flows
Notes to Financial Statements

Cristobal C. Umale, CPA

48 Candelaria Street, Rosario Complex, San Pedro City (Laguna)
www.ccumale.com; Email - info@ccumale.com
Mobile Number - 0908-814-7606

April 12, 2019

Board of Directors
Laguna Prestige Banking Corporation (A Rural Bank)
J.P Rizal Blvd., Cabuyao, Laguna

Dear Members of the Board:

In accordance with your instructions, I have undertaken the financial audit of the Laguna Prestige Banking Corporation (A Rural Bank), for the Financial Statements as of and for the year ended December 31, 2018.

I am now submitting the following reports enumerated below:

1. Certifications Required under MORB X174 and Appendix 55.
2. Supplemental Written Statement and Other Reports under SEC SRC Rule 68.
3. Audited Financial Statements as of and for the year ended December 31, 2018 with the following attachments:
 - a. Company-submitted Management Responsibility for Income Tax Return,
 - b. Company-submitted Management Responsibility for Financial Statements,
 - c. List of adjusting entries to reconcile the differences in the amounts between the Audited Financial Statements and the submitted financial statements of the Bank.
4. Letter of Comments (LOC) as required by MORB Section 174 or if there is none, a notarized certification for non-issuance of a Letter of Comments.
5. Required disclosure pursuant with MORB Section 174 - (Note 26)

During the course of my audit, I received excellent cooperation from officers and members of To them, I express my appreciation and my thanks.

Respectfully yours,



Cristobal C. Umale, CPA
TIN No. 207-149-953-000
CPA Certificate No. 0114744 expiry January 07, 2020
PTR No. 1011424, Issued at San Pedro City on January 21, 2019
BOA Reg. No. 03838 valid until January 07, 2020
BSP Accreditation expiry after audit year 2018
BIR Accreditation: AN- 09-006575-001-2016, issue date 10/27/16 expiry on 10/27/19

Cristobal C. Umale, CPA

48 Candelaria Street, Rosario Complex, San Pedro City (Laguna)

www.ccumale.com; Email - info@ccumale.com

Mobile Number - 0908-814-7606

CERTIFICATIONS

(Under MORB X174 & MORB Appendix 55)

I hereby certify the following:

That I am the External Auditor of the Laguna Prestige Banking Corporation (A Rural Bank) (the Bank) , for the Financial year ended December 31, 2018;

That my audit commenced and started on January 22, 2019 and terminated on April 12, 2019 upon submission of Audited Financial Statements;

That I discussed with the Bank all proposed adjusting journal entries and all required disclosures attached to Notes to Financial Statements as required by X174 of the Manual of Regulations for Banks, including all our audit findings and exceptions;

That the Financial Audit Report (FAR) and Letter of Comments or if there is no Letter of Comments, the Notarized Certification for non-issuance of a Letter of Comments (LOC) is submitted to the Board of Directors on April 12, 2019;

That I, or any members of my immediate family do not have any direct or indirect financial interest with the bank and that my independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants;

That there are no material findings during the audit involving fraud or dishonesty, and I did not discover any potential losses which will reduce capital funds by at least one percent.

That there is no material breach of laws or Bangko Sentral rules and regulations such as, but not limited to, (a) CAR; and (b) Loans and other risk assets review and classification.

The bank did not adhere to the provision of PFRS - 9 in providing allowance for credit losses, the bank used an aging method guided by the revised appendix 18 issued through BSP Circular 1011. The cited PFRS - 9 requires the Bank to use "Expected Credit Loss Model.

That there is no matter to report regarding termination and resignation of External Auditor.

That pursuant to the requirements of Section 174 Manual of Regulations for Banks and in accordance with the Appendix 55 of said regulations, Letter of Comments (LOC) if warranted shall be submitted as part of our Financial Audit Report prepared for the calendar year ended December 31, 2018. LOC shall deal and discuss any material deficiency in the bank's Risk Management and Internal Control Systems that was uncovered and came to the attention of the External Auditor during audit engagement.




That there is no finding on matter and issue about the Bank's ability to continue as a Going Concern, since the total resources is adequate to cover all claim of creditors.

I hereby state, that I performed my own and independent validations and I hereby state that except those already noted during the regular examination of the Bangko Sentral ng Pilipinas and my submitted Letter of Comments (LOC), no other material weakness or breach in the internal control and risk management systems was noted and came to my attention in the course of my audits.

That there is no finding on matters of corporate governance that may require urgent action by the Bangko Sentral.

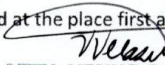
That, the accountability of external auditor is based on matters within normal coverage of an audit conducted in accordance with Philippine Standards on Auditing (PSA).


Cristobal C. Umale, CPA
TIN No. 207-149-953-000
April 12, 2019

SUBSCRIBED AND SWORN TO BEFORE ME, on this APR 22 2019 day of 2019 in CITY OF CABUYAO, LAGUNA

WITNESS MY HAND AND SEAL on the date and at the place first above written.

Doc. No. 43;
Page No. 10;
Book No. XXXV
Series of 2019.


AT NOTARY PUBLIC VELASCO, NPAF
Notary Public for the City of Cabuyao, Laguna
047 Bafia Subd., Brgy. Sala, City of Cabuyao, Laguna 4095
Not. Comm. 2017-37 on December 29, 2017
Commission expires on December 31, 2019
PTR No. 1018214 on 01-03-19 at City of Cabuyao, Laguna
Attorney's Roll No. 65629
IBP Life Member Roll No. 016998 (Laguna Chapter)
MCLE Compliance No. VI-000-802 until 4/1/2019

Cristobal C. Umale, CPA

48 Candelaria Street, Rosario Complex, San Pedro City (Laguna)

www.ccumale.com; Email - info@ccumale.com

Mobile Number - 0908-814-7606

TO THE SECURITIES AND EXCHANGE COMMISSION

In connection with my examination of the financial statements of the Laguna Prestige Banking Corporation (A Rural Bank), which are to be submitted to the Commission, I hereby represent the following:

That I am in the active practice of the accounting profession and duly registered with the Board of Accountancy (BOA) and Bangko Sentral ng Pilipinas as accredited external auditor.

That financial statements are presented in conformity with generally accepted accounting principles in the Philippines in all cases where I shall express an unqualified opinion; Except that in case of any departure from such principles, I shall indicate the nature of the departure, the effects thereof, and the reasons why compliance with the principles would result in a misleading statement, if such is a fact;

That I shall fully meet the requirements of independence as provided under the Code of Professional Ethics for CPAs;

That in the conduct of the audit, I shall comply with the generally accepted auditing standards promulgated by the Board of Accountancy; in case of any departure from such standards or any limitation in the scope of my examination, I shall indicate the nature of the departure and the extent of the limitation, the reasons therefore and the effects thereof on the expression of my opinion or which may necessitate the negation of the expression of an opinion;

That I shall comply with the applicable rules and regulations of the Securities and Exchange Commission in the preparation and submission of financial statements; and

That relative to the expression of my opinion on the said financial statements, I shall not commit any acts discreditable to the profession as provided under Code of Professional Ethics for CPAs.

I make these representations as a CPA engaged in public practice and in my individual capacity.

Cristobal C. Umale, CPA

TIN No. 207-149-953-000

CPA Certificate No. 0114744 expiry January 07, 2020

PTR No. 1011424, Issued at San Pedro City on January 21, 2019

BOA Reg. No.03838 valid until January 07, 2020

BSP Accreditation expiry after audit year 2018

BIR Accreditation: AN- 09-006575-001-2016, issue date 10/27/16 expiry on 10/27/19

This certification is issued on April 12, 2019 at San Pedro City Laguna.

Cristobal C. Umale, CPA

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Mobile Number - 0908-814-7606

Supplemental Written Statement

Board of Directors

Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

I have examined the financial statement of the Laguna Prestige Banking Corporation (A Rural Bank) for the year ended December 31, 2018, on which I have rendered the attached report dated April 12, 2019.

In compliance with SRC Rule 68, I am stating that the Laguna Prestige Banking Corporation (A Rural Bank) has a total number of Thirty Four (34) stockholders owning one hundred (100) or more shares each.



Cristobal C. Umale, CPA

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Mobile Number - 0908-814-7606

Report of Independent Auditor to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

Board of Directors

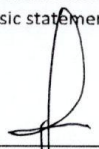
Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

I have audited in accordance with Philippine Standards on Auditing, the financial statements of Laguna Prestige Banking Corporation (A Rural Bank) for the year ended December 31, 2018, on which I have rendered my report dated April 12, 2019. My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following applicable supplementary information are presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and are not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards:

Schedule of PFRS Effective as of December 31, 2018.

Such supplementary information are the responsibility of management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.



Cristobal C. Umale, CPA

TIN No. 207-149-953-000

CPA Certificate No. 0114744 expiry January 07, 2020

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This certification is issued on April 12, 2019 at San Pedro City Laguna.

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www.ccumale.com; Email - info@ccumale.com

Mobile Number - 0908-814-7606

INDEPENDENT AUDITOR'S REPORT

Board of Directors

Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

I have audited the accompanying financial statements of Laguna Prestige Banking Corporation (A Rural Bank) for the year then ended December 31, 2018, on which I have rendered the attached report dated April 12, 2019.

In compliance with Revenue Regulations V-20, I am stating that I am not related by consanguinity or affinity to the president, manager or principal stockholders of the Laguna Prestige Banking Corporation (A Rural Bank).



Cristobal C. Umale, CPA

TIN No. 207-149-953-000

CPA Certificate No. 0114744 expiry January 07, 2020

PTR No. 1011424, Issued at San Pedro City on January 21, 2019

BOA Reg. No.03838 valid until January 07, 2020

BSP Accreditation expiry after audit year 2018

BIR Accreditation: AN- 09-006575-001-2016, issue date 10/27/16 expiry on 10/27/19

This certification is issued on April 12, 2019 at San Pedro City Laguna.



Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of the Laguna Prestige Banking Corporation (A Rural Bank) is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the (Annual Income Tax Return or Annual Information 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 value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of the Laguna Prestige Banking Corporation (A Rural Bank) complete and correct in all material respect. 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;

(c) the Laguna Prestige Banking Corporation (A Rural Bank) has filed all applicable Tax returns, reports and statements required to be filed under Philippine Tax laws for The reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for The reporting period, except those contested in good faith.

Signature: _____

Printed Name of the Chairman of the Board: **GUILLERMO D. BELLA**

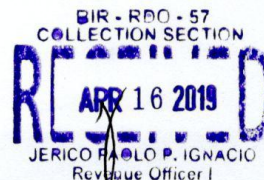
Signature: _____

Printed Name of the Chief Executive Officer/President: **GILBERT FRANCIS B. BELLA**

Signature: _____

Printed Name of the Chief Financial Officer: **JAIRO D. MARIANAN**

Signed this _____ day of _____ 2019



Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Laguna Prestige Banking Corporation (A Rural Bank) (Company) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2018 and December 31, 2017, in accordance with the prescribed financial reporting framework indicated therein, 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 Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Cristobal C. Umale, CPA of 48 Candelaria Street, Rosario Complex, San Pedro City (Laguna), the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature: _____

Printed Name of the Chairman of the Board: **GUILLERMO D. BELLA**

Signature: _____

Printed Name of the Chief Executive Officer/President: **GILBERT FRANCIS B. BELLA**

Signature: _____

Printed Name of the Chief Financial Officer: **JAIME H. MARANAN**

Signed this _____ day of _____ 2019



REYNALDO D. MABALAY, CPA

Block 7 Lot 15 Birmingham Village, Pulo, Cabuyao City, Laguna

Tel. No. (043) 406-3012

Email: rdmabalay@gmail.com

PRACTITIONER'S COMPILATION REPORT

BOARD OF DIRECTORS

LAGUNA PRESTIGE BANKING CORPORATION

J.P. Rizal Blvd., Cabuyao, Laguna

I have compiled the accompanying financial statements of LAGUNA PRESTIGE BANKING CORPORATION based on information you have provided. These financial statements comprise the statement of financial position of LAGUNA PRESTIGE BANKING CORPORATION as at December 31, 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

I performed this compilation engagement in accordance with Philippine Standard on Related Services 4410 (Revised), Compilation Engagements.

I have applied my expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with [Philippine Financial Reporting Standards (PFRS), PFRS for SMEs, or other applicable reporting framework]. I have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, I am not required to verify the accuracy or completeness of the information you provided to me to compile these financial statements. Accordingly, I do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with [PFRS, PFRS for SMEs, or other applicable reporting framework].



REYNALDO D. MABALAY, CPA

CPA Certificate No. 0106022 expiry April 14, 2020

Tax Identification No. 241-160-164

BOA Accreditation No. 4615 expiry December 31, 2021

BIR Accreditation No. AN-04-005690-001-2017 expiry February 13, 2020

PTR NO. NE 5251546, issued at General Tinio on January 07, 2019

February 15, 2019

Cristobal C. Umale, CPA

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REPORT OF INDEPENDENT AUDITOR

**The Board of Directors and Shareholders of
Laguna Prestige Banking Corporation (A Rural Bank)
J.P Rizal Blvd., Cabuyao, Laguna**

Report on the Audit of the Financial Statements

Opinion

I have audited the financial statements of Laguna Prestige Banking Corporation (A Rural 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 my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Laguna Prestige Banking Corporation (A Rural Bank) as at December 31, 2018 and 2017, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

I conducted my audit in accordance with Philippine Standards on Auditing (PSAs). my responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Corporation in accordance with the Code of Ethics for Professional Accountants in the Philippines, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

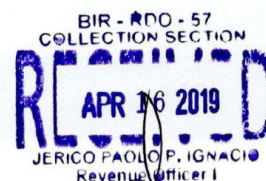
Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud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

In preparing the financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



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As part of an audit in accordance with PSAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 Corporation'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 Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. my conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

I 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 I identify during my audit.

Report on Bureau of Internal Revenue Requirement (RR 19-2011 and 15-2010)

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Notes to 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 information is the responsibility of management. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Cristobal C. Umale, CPA

TIN No. 207-149-953-000

CPA Certificate No. 0114744 expiry January 07, 2020

PTR No. 1011424, Issued at San Pedro City on January 21, 2019

BOA Reg. No.03838 valid until January 07, 2020

BSP Accreditation expiry after audit year 2018

BIR Accreditation: AN- 09-006575-001-2016, issue date 10/27/16 expiry on 10/27/18

April 12, 2019



Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

Comparative Statements of Financial Position

As of December 31, 2018 and 2017

Amounts are in Philippine Pesos

| Account Titles | Notes | 2018 | 2017 |
|--|-------|--------------------|--------------------|
| Asset | | | |
| Cash and Other Cash Items | 7 | 2,940,376 | 4,352,641 |
| Due from Bangko Sentral ng Pilipinas | 7 | 12,158,390 | 12,077,985 |
| Due from Other Banks | 7 | 146,644,917 | 115,909,849 |
| Investments - Net | 8 | 122,617,539 | 123,121,960 |
| Loans and Other Receivables - Net | 9 | 303,278,946 | 324,832,965 |
| Bank Premises, Furniture, Fixtures and Equipment net | 10 | 19,070,765 | 19,267,792 |
| Investment Properties - net | 11 | 13,789,250 | 15,951,918 |
| Other Assets - net | 12 | 4,672,092 | 4,744,137 |
| Total Assets | | 625,172,275 | 620,259,247 |

| Account Titles | Notes | 2018 | 2017 |
|---|-------|--------------------|--------------------|
| Liabilities and Capital Funds | | | |
| Total Deposit Liabilities | 13 | 386,548,909 | 386,245,873 |
| Accrued Expenses and Other Liabilities | 14 | 9,707,866 | 7,072,313 |
| Total Liabilities | | 396,256,775 | 393,318,186 |
| Capital Stock - Common | 15 | 10,155,000 | 10,155,000 |
| Capital Stock - Preferred | | 56,100 | 56,100 |
| Retained Earnings Reserve | | 658,501 | 658,501 |
| Retained Earnings Free | | 218,045,899 | 216,071,460 |
| Total Capital Funds | | 228,915,501 | 226,941,061 |
| Total Liabilities and Capital Funds | | 625,172,275 | 620,259,247 |
| Book Value per Common Share in Pesos | 15 | 2,253.66 | 2,234.22 |



Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

Comparative Statements of Income and Other Comprehensive Income

For the years ended December 31, 2018 and 2017

Amounts are in Philippine Pesos

| Account Titles | Notes | 2018 | 2017 |
|---|--------|-------------------|-------------------|
| INTEREST INCOME | | | |
| Interest - Loans and Other Receivables | 9 | 32,185,349 | 36,453,549 |
| Interest - Investments | 8 | 4,458,588 | 4,689,870 |
| Interest - Deposit with banks | 7 | 1,778,884 | 1,314,002 |
| Total interest income | | 38,422,821 | 42,457,421 |
| INTEREST EXPENSE | | | |
| Interest-Deposits | 13 | 3,162,052 | 3,170,964 |
| Total Interest Expense | | 3,162,052 | 3,170,964 |
| NET INTEREST INCOME | | 35,260,769 | 39,286,457 |
| OTHER INCOME | | | |
| Fees, Commission and Other Income | 16 | 1,745,370 | 714,021 |
| Profit or (Loss) From Assets Sold | 17 | 2,490,675 | 6,234,827 |
| Other Income | 18 | 3,652,446 | 3,551,774 |
| Total Other Income | | 7,888,491 | 10,500,622 |
| Income before Other Expenses | | 43,149,259 | 49,787,079 |
| OTHER EXPENSES | | | |
| Compensation and Fringe Benefits | 19 | 16,365,285 | 18,288,243 |
| Taxes and Licenses | 25, 28 | 3,197,886 | 3,190,010 |
| Depreciation and Amortization | 20 | 2,714,176 | 2,626,520 |
| Administrative Expense | 21 | 8,887,568 | 8,698,834 |
| Impairments and Provisions | 22 | 30,091 | 1,294,490 |
| Total Other Expense | | 31,195,006 | 34,098,097 |
| Net Operating Income | | 11,954,253 | 15,688,982 |
| Less: Income Tax Expense | 25, 28 | 2,869,071 | 5,123,567 |
| Net Income Before Comprehensive Income | | 9,085,182 | 10,565,415 |
| Other Comprehensive Income | | 0 | 0 |
| NET INCOME (LOSS) | | 9,085,182 | 10,565,415 |
| Earnings per Share | 26,23 | 89.47 | 104.04 |



Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

Comparative Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

| | (No of Shares) | | (In Pesos) | |
|---|----------------|----------------|--------------------|--------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Ordinary Shares | | | | |
| Beginning Balance | 101,550 | 101,550 | 10,155,000 | 10,155,000 |
| Additional Issuance/Stock Dividend | - | - | - | - |
| Ending Balance | 101,550 | 101,550 | 10,155,000 | 10,155,000 |
| Preference Shares | | | | |
| Beginning Balance | | | 56,100 | 56,100 |
| Additional Issuance | - | - | - | - |
| Ending Balance | - | - | 56,100 | 56,100 |
| Retained Earnings Reserve | | | | |
| Retained Earnings Reserve Beginning Balance | | | 658,501 | 658,501 |
| Retained Earnings Reserve Ending Balance | | | 658,501 | 658,501 |
| Retained Earnings Free | | | | |
| Retained Earnings Free Beginning Balance | | | 216,071,461 | 210,583,546 |
| Net Earnings Closed to Retained Earnings | | | 9,085,182 | 10,565,415 |
| Dividends Declared | | | (7,110,744) | (5,077,500) |
| Retained Earnings Free Ending Balance | | | 218,045,899 | 216,071,461 |
| Total Capital Funds | | | 228,915,501 | 226,941,062 |

Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

Comparative Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(In Pesos)

| | NOTES | 2018 | 2017 |
|---|-------|--------------------|--------------------|
| Cash Flows from Operating Activities: | | | |
| Net Income before Non-cash Expenses and Income Tax | | 11,954,253 | 15,688,982 |
| Add: Depreciation and Amortization | 20 | 2,714,176 | 2,626,520 |
| Add: Impairments and Provisions | 22 | 30,091 | 1,294,490 |
| Operating income before changes in working capital | | 14,698,520 | 19,609,992 |
| (Increase) Decrease in operating assets: | | | |
| Loans & Receivable - net | 9 | 21,523,928 | (27,975,499) |
| Sales Contract Receivables | | | |
| Investment Properties - net | 11 | 989,323 | 8,168,795 |
| Other Assets - net | 12 | 72,045 | (212,822) |
| Increase (Decrease) in operating liabilities: | | | |
| Deposit liabilities | 13 | 303,036 | 4,562,411 |
| Accrued Interest & Other liabilities | 14 | 2,297,056 | 6,142,691 |
| Income taxes Paid | 25 | (4,411,573) | (4,209,296) |
| Net Cash Provided by (Used in) Operating activities | | 35,472,336 | 6,086,272 |
| Cash Flows from Investing Activities | | | |
| Proceed from Sale of Fixed Assets | 10 | (1,343,804) | (1,667,447) |
| Additional Placement of Investments | 8 | 504,421 | (6,235,330) |
| Net cash provided by (Used in) Investing Activities | | (839,383) | (7,902,777) |
| Cash Flows from Financing Activities: | | | |
| Dividends | 15 | (5,079,744) | (5,077,500) |
| Net cash provided by (Used in) Financing Activities | | (5,079,744) | (5,077,500) |
| Net increase (Decrease) in cash and cash equivalents | | 29,553,208 | (6,894,005) |
| Cash and other cash items | 7 | 4,352,641 | 5,519,122 |
| Due from Bangko Sentral ng Pilipinas | 7 | 12,077,985 | 11,591,378 |
| Due from other banks | 7 | 115,909,849 | 123,952,521 |
| Cash and cash equivalents at the beginning of the period | | 132,340,475 | 141,063,021 |
| Cash and other cash items | 7 | 2,940,376 | 4,352,641 |
| Due from Bangko Sentral ng Pilipinas | 7 | 12,158,390 | 12,077,985 |
| Due from other banks | 7 | 146,644,917 | 115,909,849 |
| Cash and cash equivalent at the end of the period | | 161,743,683 | 132,340,475 |

Laguna Prestige Banking Corporation (A Rural Bank)

J.P. Rizal Blvd., Cabuyao, Laguna

Notes to Financial Statements

December 31, 2018

Amounts in Philippine Pesos with comparative figures from December 31, 2017

1. CORPORATE INFORMATION

Formerly Rural Bank of Cabuyao, Inc., Laguna Prestige Banking Corporation (A Rural Bank), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on August 14, 1961 as per registration number 19270 with current business address at J.P. Rizal Blvd., Cabuyao, Laguna. Formally started its operation on August, 1961 with a paid up capital share of P100,000.00, its main objective is to provide effective financial services to the small farmers, individuals and deserving enterprises of Cabuyao, Laguna. The need to extend its services was felt by the management that in January 1975, an extension office was put up at Banlic, Cabuyao which later developed into branch in May 2002. A branch office in Sta. Rosa, Laguna started operating on August 1983. The opening of Binan, Balibago, Calamba branches on November 1993, October 1994 and November 2008 followed these developments respectively.

The Bangko Sentral ng Pilipinas has approved the change of corporate name of the Rural Bank of Cabuyao, Inc. to "LAGUNA PRESTIGE BANKING CORPORATION, (A RURAL BANK)". The Bank has registered with the Securities and Exchange Commission its Amended Articles of Incorporation and Amended By-Laws bearing its new corporate name on 01 June 2011.

The financial statements of the Bank for the year ended December 31, 2018 (including the financial Statements and other data from previous year presented) were authorized for issue by the Bank's Board of Directors (BOD) on April 12, 2019.

Status of Operation

The financial statements of Laguna Prestige Banking Corporation (A Rural Bank) were prepared on a going concern basis. The going concern basis assumes that the bank will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business and there are no events or conditions which indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. 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, expense and other comprehensive income in a single statement of comprehensive income.

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

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended standards and interpretations which became effective for the year 2018, this is however if the change affected the Bank's recognition and measurements of any of its financial items or disclosures.

The adoption of these new standards, amendments and interpretations unless otherwise stated, did not have any material impact on the financial statements of the Bank. Others were cited in this report for information purposes and may not be applicable to the bank.

Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions - The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The amendments are not applicable to the Bank since it does not have share-based payment transactions.

Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4 - The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Bank since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)- The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

Amendments to PAS 40, Investment Property, Transfers of Investment Property - The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration - The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

New Standards

PFRS 9, Financial Instruments. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Bank plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Bank has performed an assessment of the population of financial instruments impacted by the classification and measurement requirements of PFRS 9 and has developed impairment methodologies to support the calculation of expected credit losses (ECL) for qualified credit exposures.

- a. Classification and Measurement PFRS 9 requires that the Bank classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).
- b. Impairment - PFRS 9 requires the Bank to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Staging assessment for non-credit-impaired financial instruments:

Stage 1 is comprised of all non-impaired financial instruments which have not experienced a Significant Increase in Credit Risk since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.

Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

Staging assessment for credit-impaired financial instruments:

Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

The bank uses the provisioning methodology prescribed under Appendix 18 issued with BSP Circular 855 and BSP Circular 1011.

Definition of "default" and "cure"

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days and has exhibited a satisfactory track record.

Restructuring

In certain circumstances, the Bank may modify the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Distressed restructuring with indications of unlikelihood to pay are categorized as impaired accounts and are moved to Stage 3.

PFRS 15 Revenue from Contracts with Customers

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Bank is currently assessing the impact of adopting PFRS 15.

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 and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (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.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the financial assets currently relevant to the Bank are presented below and in the succeeding pages.

(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.

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 Rental deposits under Other Resources 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 and allowance for probable losses.

(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. The Bank currently holds government and government-owned and controlled corporation (GOCC) debt securities designated

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.

(b) Impairment of Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Bank recognizes impairment loss, 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.

(c) Items of Income and Expense Related to Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Bank recognizes impairment loss, 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.

All income relating to financial assets that are recognized in profit or loss are presented as part of Interest Income in the statement of comprehensive income.

Provisions and Impairment losses are presented as a separate line item in the statement of comprehensive income.

Non-compounding interest income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) Derecognition of Financial Assets

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

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment losses. 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:

| | |
|-----------------------------------|-------------|
| Building and improvements | 15-30 years |
| Furniture, fixtures and equipment | 1-5 years |

Leasehold rights and improvements amortization if there is any, 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.

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

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, 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, this also includes the foreclosed properties of the bank as required by the Manual of Regulations for Banks and available for sale after redemption period in the ordinary course of business.

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 its purchase price 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.

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.

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 Operating Income in the statement of comprehensive income in the year of retirement or disposal.

2.6 Intangible Assets

Intangible assets pertain to initial franchise fees and software costs 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. Capitalized costs are amortized on a straight-line basis over the estimated useful lives.

2.7 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.

2.8 Financial Liabilities

Financial liabilities, which include deposit liabilities and accrued expenses and other liabilities (except tax-related liabilities and retirement benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss as part of Interest Expense in the statement of comprehensive income.

Financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost using the effective interest method for those with maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank's BOD.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events. This also includes any provisions of bank for losses and provision for retirement of employees.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured, it is probable that future economic benefits will flow to the Bank and the expenses incurred and to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) Interest – Income and expense are computed using the effective interest method. Interest is recognized based on a time proportion basis that takes into account the effective yield of the asset, i.e., the rate of interest required to discount the stream of future cash receipts expected over the life of the assets to equate the initial carrying amounts of the assets.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are 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 the future cash flows for the purpose of measuring the impairment loss.

(b) Service fees – are recognized as earned when collected or when there is reasonable degree of certainty as to their collectability. This is included as part of the Other Operating Income in the statement of comprehensive income.

(c) Gains or losses on sale of non-financial assets – are recognized when the title to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included as part of Other Operating Income in the statement of comprehensive income.

Costs and expenses are recognized in profit or loss upon utilization of the goods or services or at the date they are incurred. All finance costs reported in profit or loss on an accrual basis, except if there are any capitalized borrowing costs which are included as part of the cost of the related qualifying asset.

2.12 Leases – Bank as Lessee

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Bank determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.13 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment, investment properties and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.14 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees.

(b) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Compensated Absences and Other Employee Benefits

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. In addition, the Bank recognizes a liability and an expense for other employee benefits based on a formula that is fixed, regardless of the Bank's income after certain adjustments, and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation. They are included in Accrued other expenses under Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.15 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, provided such tax rates have been enacted or substantively enacted at the end of reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

2.16 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded retirement plan.

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

2.17 Equity

Capital stock represents the nominal value of shares that have been issued.

Remeasurement of defined benefit plan comprise of actuarial gains or losses on remeasurements of retirement benefit obligation.

Retained earnings - Free represents all current and prior period results of operations as reported in the profit and loss section of the statement of comprehensive income, reduced by the amounts of dividends declared, if any.

2.18 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Classifying Financial Assets as HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS financial assets. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

(b) Distinguishing between Investment Properties and Owner-managed Properties

The Bank determines whether a property qualifies as an investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the Bank's operations.

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations or as Investment Properties if the Bank intends to hold the properties for capital appreciation or for rental.

(c) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition of provisions and contingencies are discussed above.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and, Investment Properties.

The Laguna Prestige Banking Corporation (A Rural Bank) estimates the useful lives of bank premises, furniture, fixtures and equipment and, investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and, investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Based on management's assessment as at December 31, 2018 and 2017, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(b) Impairment of Loans and Receivables

Adequate amount of allowance is made and provided for specific and groups of accounts, where objective evidence of impairment exists. The Bank evaluates these accounts based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Bank's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

(c) Impairment of Non-financial Assets

The Bank's policy on estimating the impairment of non-financial assets is discussed in Note above. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses, if there is any, is recognized on investment properties as disclosed in Note . No impairment losses were recognized for bank premises furniture and fixtures and equipment.

(d) Fair Value Measurement of Investment Properties

The Bank's investment properties are composed of land and buildings and improvements. In determining the fair value of these assets, the Bank engages the services of professional and in-house and independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. The fair value of the investment properties are in Note 6.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

4.1 Integrated Risk Management Framework

The Bank operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market, liquidity and operations risks. The Bank's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Bank to optimize the risk-reward balance and maximize return on the Bank's capital.

4.2 Risk Responsibilities

The BOD directs the Bank's over-all risk management strategy and performs an oversight function on the Bank's implementation of its risk policies through various committees that it has created, as follows:

(a) Credit Committee

The Credit Committee carries the functions delegated by the BOD, the Committee's functions include reviews all credit operational reports and credit process and procedures.

(b) Audit Committee

The Audit Committee and the Board, through Internal Auditor and Compliance Officer, provides the independent assessment of the over-all effectiveness of, and compliance with the Bank's risk management policies and processes.

4.3 Financial Risk Management

The Bank's financial instruments comprise of cash and cash equivalents, receivables and payables, which arise from operations, and investments. Risks are inherent in these activities but are managed by the Bank through continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing each of these risks summarized below and in the succeeding pages.

4.3.1 Credit Risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Bank. It arises from lending, treasury and other activities undertaken by the Bank. Managing credit risk involves defining the principles and parameters governing credit activities at various levels, (i.e. strategic level, portfolio level down to individual transaction or account level).

The Bank is exposed to credit risk from its operating activities and from its financing activities consisting of cash and loans and receivables. The Bank manages credit risk by assessing the creditworthiness of its counterparties. It continuously monitors the financial health and status of its counterparties to ascertain that receivables from these counterparties will be substantially collected on due dates. Credit risk on receivables is assessed on an ongoing basis.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position, as summarized in the below.

| | Notes | 2018 | 2017 |
|-------------------------------|-------|-----------------------|-----------------------|
| Cash and Other Cash Items | 7 | 2,940,376.37 | 4,352,641.00 |
| Due from BSP | 7 | 12,158,389.88 | 12,077,985.00 |
| Due from other banks | 7 | 146,644,917.17 | 115,909,849.00 |
| HTM investments | 8 | 122,617,538.85 | 123,121,960.00 |
| Current Loans and receivables | 9 | 262,489,350.71 | 322,976,144.50 |
| | | 546,850,572.98 | 578,438,579.50 |

The Bank's management considers that all the above financial assets that are not impaired or past due at the end of reporting periods are of good credit quality.

Due from BSP and Other Banks

The credit risk for Due from BSP and other Banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) No. 9576, Amendment to Charter of PDIC.

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Loans consist of a large number of customers in various industries and geographical areas.

4.3.2 Market Risk

Market risk is the risk to earnings and capital arising from the possible decline in value if trading accounts and investments in equities and debt instruments. The Bank manages its risk by identifying, analyzing and measuring relevant or likely market risk. Moreover, it ensures that each investment is in accordance with current BSP regulations.

(a) Interest Risk

The Bank's policy is to minimize interest rate cash flow risk exposures. As of 2018, the Bank is exposed to changes in market interest rates through its short-term placements which form part of amounts due from other banks and HTM investments, which are subject to variable interest. All other financial assets and liabilities have fixed interest rates.

The following table illustrates the sensitivity of the Bank's profit before tax and equity to a reasonably possible change in interest rates of its short-term placements and HTM investments with all other variables held constant.

| 2018 | | |
|----------------------|------------|-----------|
| Sensitivity Rate | Profit | Equity |
| +/- % | Before Tax | |
| Due from other banks | 0.32% | 469,264 |
| Investment | 0.85% | 1,042,249 |
| | | 1,511,513 |
| | | 1,209,210 |
| 2017 | | |
| Sensitivity Rate | Profit | Equity |
| +/- % | Before Tax | |
| Due from other banks | 0.57% | 660,686 |
| Investment | 0.85% | 1,046,537 |
| | | 1,707,223 |
| | | 1,365,778 |

The changes in interest rates used in the analysis of short-term placements are based on the volatility of the BSP's compilation of domestic rates on short-term placements computed using standard deviation. The changes in interest rates used in the analysis of HTM investments have been determined based on the average volatility in interest rates of the said investments in the past 12 months.

4.3.3 Liquidity Risk

Liquidity risk is the risk that funds available may not be adequate to meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a loan portfolio with evenly-spaced maturities and cash flows. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The analysis of the maturity groupings of the Bank's financial assets and financial liabilities made and disclose in this financial statements. For the purpose of disclosure and to reflect the situational liquidity position, amount of past-due loans are presented in the longest time bucket. While Savings and Demand Deposits are presented in the earliest time bucket.

| 2018 | | | | |
|--|----------------------|---|-----------------------|--------------------|
| | Due Within One Year | Due Beyond One Year But Within Five Years | Due Beyond Five Years | Total |
| Financial Resources: | | | | |
| Cash and Other Cash Items | 2,940,376 | - | - | 2,940,376 |
| Due from Bangko Sentral ng Pilipinas | 12,158,390 | - | - | 12,158,390 |
| Due from Other Banks | 145,644,917 | 1,000,000 | - | 146,644,917 |
| Investments - Net | - | 10,000,000 | 112,617,539 | 122,617,539 |
| Loans and Other Receivables - Net | 42,010,792 | 207,096,576 | 54,171,578 | 303,278,946 |
| Total | 199,814,099 | 218,096,576 | 166,789,117 | 587,640,168 |
| Financial Liabilities: | | | | |
| Deposit Liabilities | 386,548,909 | - | - | 386,548,909 |
| Accrued Expenses & Other Liabilities | 498,293 | - | - | 498,293 |
| Total | 387,047,201 | - | - | 387,047,201 |
| Positive (negative) liquidity gap | (187,233,103) | 218,096,576 | 166,789,117 | 200,592,967 |
| Cumulative Total Gap | (187,233,103) | 30,863,474 | 197,652,591 | 398,245,557 |

| 2017 | | | | |
|--|----------------------|---|-----------------------|--------------------|
| | Due Within One Year | Due Beyond One Year But Within Five Years | Due Beyond Five Years | Total |
| Financial Resources | | | | |
| Cash and Other Cash Items | 4,352,641 | - | - | 4,352,641 |
| Due from BSP | 12,077,985 | - | - | 12,077,985 |
| Due from Other Banks | 115,909,849 | - | - | 115,909,849 |
| HTM Investments | - | 9,983,176 | 113,138,784 | 123,121,960 |
| Loans and Receivables | 65,356,909 | 203,911,360 | 55,564,696 | 324,832,965 |
| Total | 197,697,384 | 213,894,535 | 168,703,481 | 580,295,400 |
| Financial Liabilities: | | | | |
| Deposit Liabilities | 386,245,873 | - | - | 386,245,873 |
| Accrued Expenses & Other Liabilities | 432,969 | - | - | 432,969 |
| Total | 386,678,842 | - | - | 386,678,842 |
| Positive (negative) liquidity gap | (188,981,457) | 213,894,535 | 168,703,481 | 193,616,558 |
| Cumulative Total Gap | (188,981,457) | 24,913,078 | 193,616,558 | 387,233,117 |

4.3.4 Operations Risk

Operations risk is the risk of direct or indirect loss from inadequate or failed internal processes, people and systems or from external events.

Managing operations risk in the Bank is founded on a sound internal control environment. Among the key components of a sound internal environment are recruitment and placement policies in place that ensure the integrity, ethics and competence of personnel; a written Code of Conduct; written policies and procedures that clearly establish accountability and responsibility, segregation of functions, verification and reconciliation procedures; and, an effective assurance and internal audit function.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Carrying Amounts and Fair Values by Category

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

| | | 2018 | | 2017 | |
|--------------------------------------|------|------------------|-------------|------------------|-------------|
| | Note | Carrying Amounts | Fair Values | Carrying Amounts | Fair Values |
| Financial Assets | | | | | |
| Cash and Other Cash Items | 7 | 2,940,376 | 2,940,376 | 4,352,641 | 4,352,641 |
| Due from BSP | 7 | 12,158,390 | 12,158,390 | 12,077,985 | 12,077,985 |
| Due from Other Banks | 7 | 146,644,917 | 146,644,917 | 115,909,849 | 115,909,849 |
| Loans and Other Receivables | 9 | 303,278,946 | 303,278,946 | 324,832,965 | 324,832,965 |
| Other Assets - net | 12 | 4,672,092 | 4,672,092 | 4,744,137 | 4,744,137 |
| | | 469,694,721 | 469,694,721 | 461,917,577 | 461,917,577 |
| HTM investments | | 122,617,539 | 119,283,248 | 123,121,960 | 119,283,248 |
| | | 592,312,260 | 588,977,969 | 585,039,537 | 581,200,825 |
| | | | | | |
| | | 2018 | | 2017 | |
| | Note | Carrying Amounts | Fair Values | Carrying Amounts | Fair Values |
| Financial Liabilities | | | | | |
| At Amortized Cost: | | | | | |
| Deposit Liabilities | | 386,548,909 | 386,548,909 | 386,245,873 | 386,245,873 |
| Accrued Expenses & Other Liabilities | | 9,707,866 | 9,707,866 | 7,072,313 | 7,072,313 |
| | | 396,256,775 | 396,256,775 | 393,318,186 | 393,318,186 |

This Notes to Financial Statement discusses description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Bank's risk management objectives and policies for financial instruments is also provided.

Offsetting of Financial Assets and Financial Liabilities

For financial assets subject to enforceable master netting arrangements or similar arrangements between the Bank and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

Fair Value Hierarchy

In accordance with PFRS 13, Fair Value Measurement, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to the fair value. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

Financial Instruments Measured at Fair Value

The Bank's has no financial assets of financial liabilities measured at fair value as of December 31, 2018.

Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The fair values of financial assets (other than HTM investments) and financial liabilities measured at amortized cost approximate their carrying values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. These financial assets and financial liabilities are as follow:

| | 2018 | | | |
|--------------------------------------|--------------------|----------|--------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | |
| Cash and Other Cash Items | 2,940,376 | - | - | 2,940,376 |
| Due from BSP | 12,158,390 | - | - | 12,158,390 |
| Due from Other Banks | 146,644,917 | - | - | 146,644,917 |
| HTM Investments | 122,617,539 | - | - | 122,617,539 |
| Loans and Receivables | - | - | 303,278,946 | 303,278,946 |
| Total | 284,361,222 | - | 303,278,946 | 587,640,168 |
| Financial Liabilities: | | | | |
| Deposit Liabilities | 386,548,909 | - | - | 386,548,909 |
| Accrued Expenses & Other Liabilities | 498,293 | - | - | 498,293 |
| Total | 387,047,201 | - | - | 387,047,201 |
| | 2017 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets: | | | | |
| Cash and Other Cash Items | 4,352,641 | - | - | 4,352,641 |
| Due from BSP | 12,077,985 | - | - | 12,077,985 |
| Due from Other Banks | 115,909,849 | - | - | 115,909,849 |
| HTM Investments | 123,121,960 | - | - | 123,121,960 |
| Loans and Receivables | - | - | 324,832,965 | 324,832,965 |
| Total | 255,462,435 | - | 324,832,965 | 580,295,400 |

| | | | | |
|--------------------------------------|--------------------|----------|----------|--------------------|
| Financial Liabilities: | | | | |
| Deposit Liabilities | 386,245,873 | - | - | 386,245,873 |
| Accrued Expenses & Other Liabilities | 432,969 | - | - | 432,969 |
| Total | 386,678,842 | - | - | 386,678,842 |

Fair Value Measurement for Non-financial Assets

Determining Fair Value of Investment Properties

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis.

| 2018 | | | | |
|------------------------|----------|----------|-------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment Properties: | | | | |
| Land | - | - | 40,235,595.40 | 40,235,595 |
| Building | - | - | 21,782,000 | 21,782,000 |
| Total | - | - | 62,017,595 | 62,017,595 |

| 2017 | | | | |
|------------------------|----------|----------|-------------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment Properties: | | | | |
| Land | - | - | 43,361,291 | 43,361,291 |
| Building | - | - | 21,887,000 | 21,887,000 |
| Total | - | - | 65,248,291 | 65,248,291 |

The fair value of the Bank's investment properties is determined on the basis of the appraisals performed by various internal and external appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

Fair Value Measurement for Land

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

Fair Value Measurement for Buildings

The Level 3 fair value of the buildings under the Investment Properties account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

7 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

| | 2018 | 2017 |
|----------------------|--------------------|--------------------|
| Cash in Vault | 2,940,376 | 4,352,641 |
| Due from BSP | 12,158,390 | 12,077,985 |
| Due from Other Banks | 146,644,917 | 115,909,849 |
| | 161,743,683 | 132,340,475 |

Cash accounts with other banks generally earn interest based on daily bank deposit rates. Other cash items include cash items (other than currency and coins on hand), such as checks drawn on other banks after the clearing cut-off time until close of the regular banking hours.

Due from BSP represents the aggregate balance of noninterest-bearing deposit accounts in local currencies and to serve as a clearing account for the interbank claims.

In accordance with BSP regulations, the Bank is required to maintain regular reserves as deposit to the Bangko Sentral ng Pilipinas against savings and time deposits at 3.00% and against demand deposits at 5.00% of the outstanding balance thereof. The Bank is in compliance with the reserve requirements of the BSP as of December 31, 2018.

Due from Other Banks generally earn interest based on average daily balance at a depository bank's deposit interest rates. This account consist of the following items:

| | 2018 | 2017 |
|-----------------|--------------------|--------------------|
| Demand Deposit | 53,369,412 | 61,803,993 |
| Savings Deposit | 1,656,330 | 5,937,340 |
| Now (UCPB) | 99,491.66 | 2,535,188 |
| Time Deposit | 91,519,684 | 45,633,328 |
| | 146,644,917 | 115,909,849 |

Savings accounts represent clearing and other depository accounts with other banks which bear annual interest. Actual return for each type of deposit is shown:

| | 2018 | 2017 |
|-----------------|------------------|------------------|
| Demand Deposit | 240,207 | 152,013 |
| Savings Deposit | 22,837 | 16,376 |
| Now (UCPB) | - | 3,198 |
| Time Deposit | 1,515,840 | 1,142,415 |
| | 1,778,884 | 1,314,002 |

Deposit from other banks are placed on a varying rates from as low as 0.25% to as high as 4%, the actual interest rate as earned by these placements are disclosed below:

| | 2018 | 2017 |
|-----------------|-------|-------|
| Demand Deposit | 0.45% | 0.25% |
| Savings Deposit | 1.38% | 0.28% |
| Time Deposit | 1.66% | 2.50% |

Other Disclosures in Due from Other Banks

As of December 31, 2018, the Bank's SBL was registered at P57.23 million and as per BSP Manual of Regulations Sec. X303, banks are exempted on the ceiling of single borrowers limit (SBL) of 25% on deposit/investment placements to government banks, however excess of SBL on private banks are being considered if the accounts are used for check clearing in connection with its business operations and as per BSP Circular No. 734, Loans and other credit accommodations as well as deposits and usual guarantees by a bank to any other bank, whether locally or abroad, shall be subjected to the limits as herein prescribed or P 100.0 million, whichever is higher.

8 - INVESTMENTS - NET

The Bank's held-to-maturity investments as of the balance sheet date are as follows:

| | 2018 | 2017 |
|--------------------------------|--------------------|--------------------|
| Government Treasury Bills | 1,178,259 | 1,012,550 |
| Government Treasury Bonds | 5,000,000 | 5,000,000 |
| Government Treasury Notes | 112,304,989 | 112,470,698 |
| Bangko Sentral ng Pilipinas | 800,000 | 800,000 |
| Total | 119,283,248 | 119,283,248 |
| Unamortized Premium (Discount) | 3,334,291 | 3,838,712 |
| Investments - Net | 122,617,539 | 123,121,960 |

As of December 31, the maturity profile of the Bank's HTM investments follows:

| | 2018 | 2017 |
|---------------------------------------|--------------------|--------------------|
| Beyond one year but within five years | 10,000,000 | 9,983,176 |
| Beyond five years | 112,617,539 | 113,138,784 |
| | 122,617,539 | 123,121,960 |

Changes in HTM investments are summarized below:

| | 2018 | 2017 |
|-------------------------------|--------------------|--------------------|
| Balance at beginning of year | 123,121,960 | 123,121,960 |
| Additions | - | - |
| Maturities | (504,421) | - |
| Balance at end of year | 122,617,539 | 123,121,960 |

The above account represents 100% risk free investment in government equity which were availed off through authorized underwriters.

These investments earn interest at the rates ranging from 3.5% to 6.125% in both 2018 and 2017. The Laguna Prestige Banking Corporation (A Rural Bank) earned an interest income on its investment, total recognized income from interest amounted to P4,458,588 and P4,689,870 in years 2018 and 2017 respectively, and are presented as Interest - Investments in the statements of income and other comprehensive income.

The bank does not provide any allowance for credit losses and impairment as the management believes that these investments are reasonably collectible and their fair market values may not be materially affected by the present economic behavior. These investments were availed from and secured by the State.

9 - LOANS AND RECEIVABLES

Details of this account are disclosed below at Amortized Cost:

| | 2018 | 2017 |
|--|--------------------|--------------------|
| Agrarian Reform Loans | 13,584,103 | 12,977,595 |
| Other Agricultural Credit Loans | 24,345,577 | 23,169,029 |
| Small Scale Enterprises | 39,912,650 | 33,034,050 |
| Medium Scale Enterprise | 61,309,698 | 49,496,461 |
| Loans to Individuals for Personal Use Purposes | 933,523 | - |
| Loans to Individual for Housing Purposes | 36,989,277 | 35,356,964 |
| Loans to Individuals for Other Purposes | 138,176,604 | 183,136,926 |
| Total Loans | 315,251,431 | 337,171,025 |

Loans are classified into stages: December 31, 2018

| Loan Staging Based on BSP Circular 1011 | | Loan Classifications | |
|---|--------------------|------------------------------|--------------------|
| Stage 1 | 266,064,813 | Pass | 261,291,637 |
| Stage 2 | 23,947,171 | Substandard under-performing | 28,720,347 |
| Stage 3 | 25,451,231 | Substandard non-performing | 14,409,415 |
| Total | 315,463,215 | Doubtful | 9,837,947 |
| | | Loss | 1,203,870 |
| | | Total | 315,463,215 |

| | Current | Past Due Performing | Past Due Non-Performing |
|--|--------------------|---------------------|-------------------------|
| Agrarian Reform Loans | 4,710,932 | - | 8,873,171 |
| Other Agricultural Credit Loans | 24,342,044 | - | 3,532 |
| Small Scale Enterprises | 25,912,644 | 1,000,000 | 13,000,006 |
| Medium Scale Enterprise | 61,084,134 | 225,564 | - |
| Loans to Individuals for Personal Use Purposes | 904,329 | 8,058 | 21,136 |
| Loans to Individual for Housing Purposes | 34,436,252 | 1,818,282 | 734,742 |
| Loans to Individuals for Other Purposes | 109,901,302 | 25,668,443 | 2,818,644 |
| TOTALS | 261,291,637 | 28,720,347 | 25,451,231 |

Loans classified as to status

| | 2018 | 2017 |
|---|--------------------|--------------------|
| Current | 261,291,637 | 321,950,938 |
| Past Due -Performing | 28,720,347 | 1,076,137 |
| Past Due - Non-Performing | 25,115,118 | 14,383,679 |
| Items in Litigation | 336,113 | 336,113 |
| Total Loans | 315,463,215 | 337,746,868 |
| Unamortized Discount | 211,784 | 575,842 |
| Amortized Cost | 315,251,431 | 337,171,025 |
| Allowance for Credit Losses | 11,006,214 | 11,006,214 |
| General Loan Loss Provision | 2,550,495 | 2,550,495 |
| Net Loan Portfolio | 301,694,722 | 323,614,316 |
| Sales Contract Receivables (Note 9a) | 1,584,224 | 1,218,649 |
| Loans and Other Receivables - Net | 303,278,946 | 324,832,965 |

Interest income on loans and receivables amounted to P32,185,349 million and P36,453,549 million in 2018 and 2017 respectively, and are presented as Interest Income on loans and receivables in the statements of comprehensive income.

Loans classified as to type of security

| | 2018 | 2017 |
|-------------------------------------|--------------------|--------------------|
| Secured by Real Estate Mortgage | 292,902,854 | 312,214,284 |
| Secured by other type of securities | 1,843,224 | 2,838,115 |
| Unsecured Loans | 20,505,354 | 22,118,626 |
| Amortized Cost | 315,251,431 | 337,171,025 |

Distribution of credits presented at Amortized Costs:

| | 2018 | |
|---|----------------------|---------------------|
| | In Millions of Pesos | Concentration Ratio |
| Agriculture, Forestry and Fishing | 20.12 | 6.38% |
| Manufacturing | 3.08 | 0.98% |
| Construction | 68.14 | 21.61% |
| Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles | 39.54 | 12.54% |
| Accommodation and Food Service Activities | 0.12 | 0.04% |
| Transportation and Storage | 12.05 | 3.82% |
| Information and Communication | 0.09 | 0.03% |
| Real Estate Activities | 116.67 | 37.01% |
| Education | 15.59 | 4.95% |
| Human Health and Social Work Activities | 2.69 | 0.85% |
| Arts, Entertainment and Recreation | 0.67 | 0.21% |
| Other Service Activities | 35.57 | 11.28% |
| Salary Based and Other Consumption Loans | 0.93 | 0.30% |
| Total | 315.25 | 100.00% |

Loans classified as to original Term

| | 2018 | 2017 |
|----------------------------------|--------------------|--------------------|
| Short Term (one year or less) | 48,770,556 | 73,602,465 |
| Medium Term (>1 year to 5 years) | 205,512,352 | 204,084,151 |
| Long Term (>5 years) | 60,968,523 | 59,484,409 |
| Total | 315,251,431 | 337,171,025 |

The Bank establishes allowance for impairment losses on loans and other risk assets in accordance with the requirements of the BSP, the Bank did not adhere to the provision of PFRS 9 - Financial Instrument, requiring to use Expected Credit Loss Model.

| | 2018 | 2017 |
|--|-------------------|-------------------|
| Balance at beginning of year | 11,006,214 | 10,905,306 |
| Amount Set aside for estimated credit losses | - | 154,200 |
| Write-off/Other Deduction | - | (53,292) |
| | 11,006,214 | 11,006,214 |

9.a - Sales Contract Receivables

This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dacion in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of selling price.

| | 2018 | 2017 |
|--|------------------|------------------|
| Sales Contract Receivable - Current and Performing | 1,197,713 | 1,025,207 |
| Sales Contract Receivable - Non-Performing | 1,220,700 | 1,026,339 |
| Gross Sales Contract Receivable | 2,418,414 | 2,051,546 |
| Less : Unamortized Discount | 834,190 | 832,897 |
| Sales Contract Receivable - Net | 1,584,224 | 1,218,649 |

Sales Contract Receivable with net amount of P1,584,224 and P1,218,649 in years 2018 and 2017 respectively, represents assets acquired in settlement of loans through foreclosure or dacion en pago subsequently sold on installment basis whereby the title to the said property is transferred to the buyer only upon full payment of the account.

10 - BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment shown below.

| | Land | Building and Improvements | Furniture, Fixtures and Equipment | Total |
|--------------------------|------------|---------------------------|-----------------------------------|------------|
| December 31, 2018 | | | | |
| Cost | 15,791,520 | 15,243,553 | 17,119,461 | 48,154,533 |
| Accumulated depreciation | - | 14,315,207 | 14,768,561 | 29,083,768 |
| Net carrying amount | 15,791,520 | 928,346 | 2,350,900 | 19,070,765 |
| December 31, 2017 | | | | |
| Cost | 15,791,520 | 15,227,613 | 17,367,115 | 48,386,248 |
| Accumulated depreciation | - | 13,930,597 | 15,187,859 | 29,118,456 |
| Net carrying amount | 15,791,520 | 1,297,016 | 2,179,257 | 19,267,792 |

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment is shown in the succeeding page.

Acquisition Costs

| | Land | Buildings | Furnitures, Fixtures and IT Equipment | Transportation Equipment | Other Office Equipment | Leasehold Improvements | Total |
|-----------------------|------------|------------|---------------------------------------|--------------------------|------------------------|------------------------|-------------|
| At January 01, 2017 | 15,791,520 | 11,903,342 | 5,856,859 | 6,861,989 | 4,517,732 | 3,324,271 | 48,255,712 |
| Additions - year 2017 | - | - | 377,308 | 71,410 | 62,161 | - | 510,879 |
| Disposals - year 2017 | - | - | - | (380,344) | - | - | (380,344) |
| At December 31, 2017 | 15,791,520 | 11,903,342 | 6,234,167 | 6,553,056 | 4,579,893 | 3,324,271 | 48,386,248 |
| Additions - year 2018 | - | 15,940 | 310,635 | 558,240 | 453,991 | - | 1,338,806 |
| Disposals - year 2018 | - | - | - | (1,570,521) | - | - | (1,570,521) |
| At December 31, 2018 | 15,791,520 | 11,919,282 | 6,544,802 | 5,540,775 | 5,033,884 | 3,324,271 | 48,154,533 |

Accumulated Depreciations

| | Land | Buildings | Furnitures, Fixtures and IT Equipment | Transportation Equipment | Other Office Equipment | Leasehold Improvements | Total |
|---------------------------|------|------------|---------------------------------------|--------------------------|------------------------|------------------------|-------------|
| At January 01, 2017 | - | 10,084,002 | 5,007,584 | 5,187,149 | 4,425,841 | 3,088,407 | 27,792,982 |
| Depreciations - year 2017 | - | 522,324 | 411,760 | 450,372 | 85,496 | 235,864 | 1,705,816 |
| Reversals - year 2017 | - | - | - | (380,343) | - | - | (380,343) |
| At December 31, 2017 | - | 10,606,326 | 5,419,344 | 5,257,178 | 4,511,337 | 3,324,271 | 29,118,456 |
| Depreciations - year 2018 | - | 384,610 | 405,832 | 559,483 | 185,907 | - | 1,535,831 |
| Reversals - year 2018 | - | - | - | (1,570,519) | - | - | (1,570,519) |
| At December 31, 2018 | - | 10,990,936 | 5,825,176 | 4,246,142 | 4,697,243 | 3,324,271 | 29,083,768 |

| | Land | Buildings | Furnitures, Fixtures and IT Equipment | Transportation Equipment | Other Office Equipment | Leasehold Improvements | Total |
|--------------------------------------|------------|-----------|---------------------------------------|--------------------------|------------------------|------------------------|------------|
| Net Book Value At December 31, 2017 | 15,791,520 | 1,297,016 | 814,823 | 1,295,878 | 68,556 | - | 19,267,792 |
| Net Book Value Additions - year 2018 | 15,791,520 | 928,346 | 719,626 | 1,294,633 | 336,640 | - | 19,070,765 |

Under BSP rules, investments in bank premises, furniture, fixtures and other equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2018 and 2017, The Laguna Prestige Banking Corporation (A Rural Bank)'s level of investment in fixed assets stand at 8.33% and 8.49% respectively.

Total Depreciation Expenses amount to P1,540,831 and P1,471,352 for the years ended December 31, 2018 and 2017 details of which are disclosed in Note 20.

11 - INVESTMENT PROPERTIES

Investment properties include land and buildings and improvements acquired by the Bank through foreclosure.

The gross carrying amounts and accumulated depreciation and impairment of investment properties are shown below.

| | Land | Building and | Total |
|--------------------------|-----------|--------------|------------|
| December 31, 2018 | | | |
| Cost | 7,098,722 | 11,024,555 | 18,123,276 |
| Accumulated depreciation | - | 4,334,026 | 4,334,026 |
| Net carrying amount | 7,098,722 | 6,690,528 | 13,789,250 |

December 31, 2017

| | Land | Building and Improvements | Total |
|--------------------------|-----------|---------------------------|------------|
| Cost | 7,646,563 | 11,551,695 | 19,198,258 |
| Accumulated depreciation | - | 3,246,340 | 3,246,340 |
| Allowance for impairment | - | - | - |
| Net carrying amount | 7,646,563 | 8,305,355 | 15,951,918 |

Movements of Capitalized Cost are disclosed below:

| | 2018 | 2017 |
|-----------------------------|-------------|-------------|
| Beginning Balance | 19,198,258 | 26,399,247 |
| Foreclosure during the year | - | 132,953 |
| Sold or Transferred to SCR | (1,269,570) | (7,333,942) |
| Other Adjustments | 194,589 | - |
| Ending Balance | 18,123,276 | 19,198,258 |

Movements of Accumulated Depreciation/ Impairment Loss are disclosed below:

| | 2018 | 2017 |
|-------------------------|------------|------------|
| Beginning Balance | 3,246,340 | 2,278,534 |
| Depreciation/Impairment | 1,173,345 | 1,155,169 |
| Reversals | (85,659) | (187,362) |
| Ending Balance | 4,334,026 | 3,246,340 |
| Net Carrying Amount | 13,789,250 | 15,951,918 |

The market values of ROPA stand at P62.02 million in For the years ended December 31, 2018 and 2017 and P65.25 million in As of December 31, 2018 and 2017.

The Laguna Prestige Banking Corporation (A Rural Bank) sold certain investment properties, which resulted in a gain of P2,490,675 million in 2018 and P6,234,827 million in 2017 and are presented as part of Gain on sale of non-financial assets under Other Operating Income account in the statements of comprehensive income.

12 - OTHER RESOURCES

This account consists of:

| | 2018 | 2017 |
|------------------------------|-----------|-----------|
| Accounts Receivable | 442,263 | 473,204 |
| Prepaid Expenses | 100,000 | 100,000 |
| Deferred Tax Asset | 1,075,606 | - |
| Post Retirement Fund | 2,457,830 | 2,870,350 |
| Accrued Interest Receivables | 27,556 | 55,111 |
| Petty Cash Funds | 12,500 | 12,500 |
| Unused Office Supplies | 461,923 | 598,566 |
| Miscellaneous Assets | 94,414 | 634,406 |
| | 4,672,092 | 4,744,137 |

13 - DEPOSIT LIABILITIES

Details of this account as of December 31, 2018 and 2017 are disclosed below:

| | 2018 | 2017 |
|---------------------|-------------|-------------|
| Demand Deposit | 426,424 | 456,557 |
| Savings Deposit | 200,537,575 | 191,520,761 |
| Termed/Time Deposit | 185,584,910 | 194,268,555 |
| | 386,548,909 | 386,245,873 |

Interest rates on deposit liabilities range between 0.3 percent to 2 percent per annum in years 2018 and 2017. The related accrued interest payable amounting to P498,292.56 and P432,968.61 as of December 31, 2018 and as of December 31, 2017, respectively, is presented as Accrued Interest Expense on Financial Liabilities under the ACCRUED EXPENSES AND OTHER LIABILITIES account in the statements of financial position (see Note 14).

In accordance with BSP regulations, the Bank is required to maintain regular reserves as deposit to the Bangko Sentral ng Pilipinas against savings and time deposits at 3.00% and against demand deposits at 5.00% of the outstanding balance thereof. The Bank is in compliance with the reserve requirements of the BSP as of December 31, 2018.

During the year ended December 31, 2018 and 2017 interest expenses for deposit liabilities amounts to P3,162,052.16 and P3,170,963.83 respectively.

14 - ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of:

| | 2018 | 2017 |
|---|------------------|------------------|
| Accrued Interest Expense on Financial Liabilities | 498,293 | 432,969 |
| Income Tax Payable | - | 914,268 |
| Pension / Retirement Payable | 3,309,265 | 3,221,785 |
| Withholding Tax Payable | 221,813 | 390,542 |
| SSS, Medicare, employer's Compensation Premium | 32,489 | 32,237 |
| Accounts Payable | 3,615,006 | 2,080,512 |
| Dividends Payable | 2,031,000 | - |
| Total | 9,707,866 | 7,072,313 |

15 - EQUITY

Common Stock

The Bank's authorized capital stock of Ten Million Two Hundred Eleven Thousand One Hundred (P10,211,100.00) is divided into 101,550 shares of Common stock and 561 shares of Preferred Stocks both with Par Value of P100 each shares. Both and all these shares are fully subscribed and paid.

Preferred stock shall be issue only against government investment in the capital stock of the bank. Preferred stock as issued shall have preference over common stock in the assets of the corporation in the event liquidation as provided hereunder.

Only common stock shall be entitled to voting rights. Preferred stocks shall be non-voting but in case of sale by the government of its preferred stocks to private shareholders, such stocks automatically become common stocks with voting rights, thereby reducing the number of outstanding preferred stocks and increasing the number of outstanding common stocks.

Preferred stock shall share in dividend distribution non exceeding two per centum (2%) thereof without preference. The amount of any dividend's payable to any holder of stock may be applied to the repayment of the stockholder's indebtedness to the bank.

As soon as the Bank has resources available for the purpose, the equity investment of the government, as evidence by outstanding preferred stocks, shall be reduced by retirement of such stock at its par value and its sale to private investors, in the manner provided for in Section 7 of Republic Act No. 720(Rural Bank's Act, as amended), and implementing rules and regulations.

No retirement or purchase by the Bank of its shares subscribed by private shareholders shall be made unless an equal amount of preferred shares is retired or purchased so long as the government holds preferred shares in the bank.

In the event of liquidation, dissolution, receivership, bankruptcy, or winding up of the affairs of the bank, voluntary or involuntary, the assets of the bank remaining after payments have been made to the creditors shall be distributed in the following order. First recipient shall be the holders of preferred stock to the full par value of the preferred stock, or ratably, in so far as the assets of the Bank will permit; then, the holders of the common stock to the full par value of the common stock, or ratably, in so far as the assets of the bank will permit; and thereafter any sums remaining shall be distributed equally to holders of common or preferred stock alike. In the absence of preferred stocks, common stockholders shall share in proportion to their respective holdings in the assets available for distribution.

Book Value per Share

| | | | | | |
|-------------------|---|--|---------------------------------------|---|---------------|
| December 31, 2018 | - | $\frac{\text{Total Capital Funds}}{\text{Total Shares Outstanding}}$ | $\frac{\text{P}228,859,401}{101,550}$ | = | P2,254 |
| December 31, 2017 | - | $\frac{\text{Total Capital Funds}}{\text{Total Shares Outstanding}}$ | $\frac{\text{P}226,884,961}{101,550}$ | = | P2,234 |

The Total Capital Funds used in the above computation is those that are available to Common Stockholders, and the Total Shares Outstanding includes only Common Stocks. Book Value per Share on both years presented is in Philippine Peso.

Capital Management and Regulatory Capital

The BSP, as a lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent of its risk-weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total capital funds excluding:

- (a) Unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) Total outstanding unsecured credit accommodations to related interests (DOSRI);
- (c) Deferred tax asset or liability;
- (d) Accumulated equity in earnings of investee Bank where the Bank holds 50% or less but where the equity method of accounting has been applied; and,
- (e) Appraisal increment on property and equipment other than those allowed to be recognized in connection with a merger or acquisition.

Risk assets consist of total assets after excluding cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

As at December 31, 2018, the Bank's capital-to-risk assets ratio stands at 43.74%, which is compliant with the BSP's minimum requirement of 10.00%.

As at December 31, 2018, the Bank's Tier 1 capital-to-risk assets ratio stands at 43.24%.

This level of Capital can absorb losses or downward adjustment to Tier one Capital amounting to P176.18 Million before it falls lower than the 10 percent, the minimum level of capital or adequacy ratio.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following:

- (a) investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
- (b) investments in debt capital instruments of unconsolidated subsidiary banks;
- (c) investments in equity of subsidiary insurance companies and non-financial allied undertakings;
- (d) reciprocal investments in equity of other banks/enterprises; and,
- (e) reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

The Bank's regulatory capital position (in millions of Philippine pesos) as of December 31, 2018 based on the BSP prescribed computation is as follows:

| | | | 2018 |
|---|---------------|-------------|----------------|
| Tier 1 Capital | | | |
| Common stock | | | 10.155 |
| Retained Earnings | | | 218.704 |
| Unsecured DOSRI Loans | | | (2.000) |
| Deferred tax asset, net of deferred tax liability | | | (1.076) |
| | | | 225.784 |
| Tier 2 Capital | | | |
| Preferred stock | | | 0.056 |
| General loan loss provision | | | 2.550 |
| | | | 228.390 |
| Total Qualifying Capital | | | 228.390 |
| Total Risk Weighted Assets | | | |
| | Amount | Risk Weight | |
| 0% Risk weight | 144.72 | 0% | - |
| 50% Risk Weight | 36.25 | 50% | 18.127 |
| 75% Risk Weight | 88.22 | 75% | 66.167 |
| 100% Risk Weight - NP Housing Loans | 0.73 | 100% | 0.735 |
| 150% Risk Weight | 28.72 | 150% | 43.080 |
| 100% Risk Weight | 330.55 | 100% | 330.550 |
| Operational Risk Weight | | | 63.485 |
| Total Risk Weighted Assets | | | 522.144 |
| Capital Adequacy Ratio | | | 43.74% |
| Tier 1 Capital Adequacy Ratio | | | 43.24% |

The Bank is not engaged in trading and has no foreign currency denominated assets subject to market risk.

As at December 31, 2018, the Bank's capital-to-risk assets ratio stands at 43.74%, which is compliant with the BSP's minimum requirement of 10.00%.

Dividend declared during the years ended December 31, 2018 and 2017 stands at P7,110,744 and P5,077,500 respectively.

16 - FEES AND COMMISSION INCOME

| | 2018 | 2017 |
|--------------------------------------|------------------|----------------|
| Income from Service Fees and Charges | 1,745,370 | 714,021 |
| Total | 1,745,370 | 714,021 |

Income from Service fees and charges represent other charges and fees on loans collected by the Bank as payment for its services

17 - PROFIT OR (LOSS) FROM ASSET SOLD

| | 2018 | 2017 |
|---|------------------|------------------|
| Bank Premises, Furniture, Fixture and Equipment | 279,998 | - |
| Income from Sale of Foreclosed Properties | 2,210,677 | 6,234,827 |
| Total | 2,490,675 | 6,234,827 |

These are income generated by the bank through sale of its foreclosed properties. In case the sale of Real and Other Properties Acquired (ROPA) is through installment, the difference between the present value of gross receivables and booked value of asset sold is lodged to this account as an outright income.

18 - OTHER INCOME

This represent income coming from sources which are not included in major caption presented in all income source previously discussed, sources are, penalties and charges for clients' request of statement of accounts and collection of charged off assets for years indicated. For the years ended December 31, 2018 and 2017, The Laguna Prestige Banking Corporation (A Rural Bank) earned ₱3,652,446 and ₱3,551,774 respectively.

19 - COMPENSATION AND FRINGE BENEFITS

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Salaries and Wages | 9,036,931 | 8,688,073 |
| Other Benefits Directors | 43,102 | 8,282 |
| Other Employee Benefits | 5,319,087 | 4,497,689 |
| Directors Fees | 828,000 | 984,000 |
| SSS, Philhealth and Employees' Compensation Premium and Pag-IBIG Fund Contributions | 638,165 | 810,199 |
| Contribution to Retirement/Provident Fund | 500,000 | 3,300,000 |
| Total | 16,365,285 | 18,288,243 |

Retirement Benefits Obligations

In compliance with R.A. 7641, defined benefit plan, on which the bank's obligation is to provide specific level of benefits for every year of service, the bank will pay lump sum to its regular employees when they retire. The lump sum to be paid is directly related to the employees' basic salary in the final year of service multiplied by the number of year in service.

The bank obtained an actuarial valuation of its employees' retirement benefits computed using the projected unit credit method as of December 31, 2018 as required by PAS/IAS 19, Employee Benefits and PAS/IAS 26, Accounting and Reporting of Retirement plan and has a defined benefit plan provided for the retirement plan required to be paid under RA No. 7641. Under PAS 19 "Employee Benefits", the cost defined benefit plan including those mandated under RA No. 7641 should be determined using the term or years of service of an employee. The accumulated balance of retirement obligation is presented in the Other Liabilities - Retirement Fund Payable.

The estimated annual normal cost or current contribution for the valuation period January 1, 2019 to December 31, 2019 is ₱384,990. This amount is recommended to be paid monthly or quarterly based on a percentage of covered payroll for the period which is actuarially computed at 4.3%. This actuarial funding rate shall be the basis of current and future service contributions until the next actuarial valuation.

The past service liability as of December 31, 2018 is P7,856,274 (actuarial liability for services rendered up to valuation date). However, the total Net Assets of the Retirement Trust Fund is P2,266,122 as of December 31, 2018. The Fund therefore has an unfunded past service liability of P5,590,152 as of valuation date.

The movements in the fair value of the retirement benefit obligation are as follows:

| | 2018 | 2017 |
|-----------------------------|------------------|------------------|
| Balance of Fund Jan. 01 | 2,870,350 | 2,948,565 |
| Interest Earned by the Fund | 111,736 | 103,135 |
| Payment from Retiree | (524,256) | (181,350) |
| Balance Dec. 31: | 2,457,830 | 2,870,350 |

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

| | 2018 | 2017 |
|-------------------------------|------------------|------------------|
| Retirement Payable Jan. 01 | 3,221,785 | 3,300,000 |
| Added/ Additional Provisions | 611,736 | 103,135 |
| Payment from Retiree | (524,256) | (181,350) |
| Balance at end of year | 3,309,265 | 3,221,785 |

The retirement fund is lodged in a trust fund maintained in and managed by United Coconut Planters Bank.

20 - DEPRECIATIONS AND AMORTIZATIONS

| | 2018 | 2017 |
|---------------------------|------------------|------------------|
| Buildings | 384,610 | 522,324 |
| Furniture and Fixtures | 63,531 | 147,815 |
| IT Equipment | 342,301 | 350,841 |
| Other Office Equipment | 190,907 | |
| Transportation Equipment | 559,483 | 450,372 |
| ROPA Depreciation Expense | 1,173,345 | 1,155,169 |
| Total | 2,714,176 | 2,626,520 |

21 - ADMINISTRATIVE EXPENSES

This account is composed of the following:

| | 2018 | 2017 |
|--|-----------|-----------|
| Rent | 1,102,719 | 1,073,208 |
| Power, Light and Water | 1,090,504 | 1,079,511 |
| Postage, Telephone, Cables and Telegrams | 307,114 | 270,299 |
| Repairs and Maintenance | 313,733 | 242,297 |
| Security Services | 1,672,742 | 1,471,086 |
| Information Technology Expenses | 251,113 | 193,833 |
| Supervision Fees | 122,036 | 110,381 |
| Insurance Expenses | | |
| PDIC Insurance | 778,538 | 762,126 |
| Other Insurance | 219,372 | 147,238 |
| Management and Other Professional Fees | 1,316,130 | 1,231,471 |
| Representation and Entertainment | 18,664 | 20,348 |
| Traveling Expenses | 109,489 | 122,833 |
| Fuel and Lubricants | 658,292 | 575,755 |
| Advertising and Publicity | 68,541 | 163,176 |
| Membership Fees and Dues | 51,500 | 69,560 |
| Donations and Charitable Contributions | 6,248 | 11,520 |
| Periodicals and Magazines | 5,390 | 15,110 |

| | | |
|---|------------------|------------------|
| Stationery and Supplies Used | 338,816 | 343,715 |
| Fines, Penalties and Other Charges | 51,000 | 5,220 |
| Litigation Expenses | 303,530 | 336,000 |
| Printing, Photocopying and Other Admin. Costs | 102,097 | 454,147 |
| | 8,887,568 | 8,698,833 |

22 - IMPAIRMENTS AND PROVISIONS

This account is composed of the following:

| | 2018 | 2017 |
|------------------------------|---------------|------------------|
| Provision for Losses - Loans | 30,091 | 1,294,490 |
| | 30,091 | 1,294,490 |

23 - EARNINGS (LOSS) PER SHARE - COMMON SHARES

| | | | | | |
|-------------------|---|--------------------------|------------|---|----------------|
| December 31, 2018 | - | Net Income | 9,085,182 | = | ₱89.47 |
| | | Total Shares Outstanding | 101,550 | | |
| December 31, 2017 | - | Net Income | 10,565,415 | = | ₱104.04 |
| | | Total Shares Outstanding | 101,550 | | |

Net income used in the above computation is those that are available to Common Stockholders, and the Total Shares Outstanding includes only Common Stocks. Earnings (Loss) per Share on both years presented is in Philippine Peso.

24 - RELATED PARTY TRANSACTIONS

The Bank's related parties include its DOSRI, and key management personnel and entities under common ownership.

DOSRI Loans

The Bank grants loans to DOSRI. The General Banking Act and BSP regulations limit the amount of the loans to be granted by the Bank to a single borrower to 25.00% of equity. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Laguna Prestige Banking Corporation (A Rural Bank) (Bank). In aggregate, loans to DOSRI generally should not exceed the total capital funds or 15.00% of the total loan portfolio of the Bank, whichever is lower. The Bank complied with the restrictions on DOSRI loans as of December 31, 2018 and December 31, 2017.

Complete discussion of DOSRI loans is disclosed in Note 26.

Deposit Liabilities - DOSRI

In the ordinary course of business, the Bank has deposit transactions with certain DOSRI and with outstanding deposit balance as of December 31, 2018 amounting to P12,175,456.00.

Key Management Personnel Compensation

The key management personnel compensation and are shown as part of Employee benefits under Other Operating Expenses account in the statements of comprehensive income are breakdown as follows:

| | 2018 |
|-------------------------|------------------|
| Salaries and Allowances | 6,003,540 |
| Allowances | 498,000 |
| Director's Fees | 828,000 |
| Total | 7,329,540 |

25 - INCOME TAX

Regular Tax – the corporation is subject to thirty five percent (30%) income tax on taxable income of the corporation. Taxable income is derived after deducting earnings that were already subject to final tax (passive income) and allowable deductions from gross income of the corporation. Or;

Minimum Corporate Income Tax – a minimum of two percent (2%) of the gross profit of the corporation. Gross profit of the corporation is derived after deducting cost of services related to the operation of the corporation (which ever is higher of 30% regular income tax).

Reconciliation of the 2018 statutory net income versus net income reported under Philippine Financial Reporting Standards:

Regular Corporate Income Tax

| | |
|---|------------------|
| Net Income (Philippine GAAP) | 11,954,253 |
| Reconciling Items | |
| Interest income subject to final tax | (6,237,472) |
| Tax Arbitrage 33% of Interest Income Subject to Final Tax, maximum is equal to Interest Expense | 2,058,366 |
| Disallowed Expenses - Excess Representation | |
| Actual Representation Expense | 18,664 |
| Allowed = 1% of Gross Income | 463,113 |
| Disallowed Representation Expense | None |
| Disallowed Expenses - Non - Deductible Penalties | 51,000 |
| Non-Cash Provisions and Impairments and Provision for Retirement | 530,091.32 |
| Net Taxable Income | 8,356,238 |
| Tax Rate | 30.00% |
| Regular Corporate Income Tax | 2,506,871 |

Minimum Corporate Income Tax

| | |
|--|----------------|
| Total income | 46,311,312 |
| Interest income from T-Bills Investments | 4,458,588 |
| Interest on deposits in banks | 1,778,884 |
| Total Income Subject to Final Tax | 6,237,472 |
| Income Subject to Regular Income Tax | 40,073,840 |
| Direct Costs of Service: | |
| Net Interest Expense deductible for tax purposes is reduced by 33% of Interest Income subjected to Final Tax, herein the net amount. | 1,103,686 |
| Compensation/fringe benefits | 15,865,285 |
| Supervision/Banking Fees | 122,036 |
| PDIC Insurance | 778,538 |
| Total Direct Costs of Service | 17,869,545 |
| Income Before Ordinary Allowable Deductions (Basis of 2% MCIT) | 22,204,295 |
| MCIT Rate | 2.00% |
| Minimum Corporate Income Tax | 444,086 |

The Bank is subject to the Regular Corporate Income Tax since the amount computed is higher than the Minimum Corporate Income Tax.

| | |
|---|----------------------|
| Regular Corporate Income Tax | 2,506,871.48 |
| Less: Income Tax Paid First Three Quarters Under Regular Income Tax | 2,583,030.30 |
| Less: Creditable Income Tax BIR Form 2307 | 8,516.00 |
| Still Due (Overpayment) | P (84,674.82) |

In 2018 and 2017, the Bank opted to continue claiming itemized deductions in computing for income tax reporting.

Income tax expense presented in the income statement consists of the following:

| | 2018 |
|---------------------------------|------------------|
| Income Tax Expense - Final | 1,354,980 |
| Income Tax Expense - Normal | 2,506,871 |
| Deferred Income Tax | (992,780) |
| Total Income Tax Expense | 2,869,072 |

The bank should account for the tax consequences of transactions and other events in the same way it accounts for the transactions or other events themselves, it is inherent in the recognition of an asset or liability that that asset or liability will be recovered or settled, and this recovery or settlement may give rise to future tax consequences which should be recognized at the same time as the asset or liability. The Management believes that the future tax benefits (Effect on future cash flows) arising from Deferred Tax Asset from allowance for losses for loans and receivables may not be fully realizable given that the provision for losses may not result to the actual write-off of accounts. The components of deferred tax assets are as follow:

| | December 31, 2018 | | December 31, 2017 | |
|--|-------------------|----------------|-------------------|----------------|
| | Amount | Tax Effect | Amount | Tax Effect |
| Post-employment defined benefit obligation | 3,309,265 | 992,780 | 3,221,785 | 966,535 |
| | 3,309,265 | 992,780 | 3,221,785 | 966,535 |

26 - REQUIRED DISCLOSURES BASED ON MORB SECTION 174.

Financial Highlights

The following are some of the financial highlights of the Bank:

| | 2018 | 2017 |
|---------------------------------------|-------------|-------------|
| For The Year Ended (In Pesos): | | |
| Total Earnings | 46,311,312 | 52,958,043 |
| Total Expenses | 37,226,129 | 42,392,628 |
| Net Earnings | 9,085,182 | 10,565,415 |
| Net Earnings Per Share - Common | 89.47 | 104.04 |
| At Year End (In Pesos): | | |
| Total Assets | 625,172,275 | 620,259,247 |
| Loans & Receivable - Net | 303,278,946 | 324,832,965 |
| Fixed Assets - Net | 19,070,765 | 19,267,792 |
| Risk-weighted assets | 522,143,652 | 175,510,192 |
| Deposit Liabilities | 386,548,909 | 386,245,873 |
| Capital Funds | 228,915,501 | 226,941,061 |
| Book Value per Common Share | 2,253.66 | 2,234.22 |

Financial Performance Indicators

The following are some of the financial performance indicators of the Bank:

| | 2018 | 2017 |
|-----------------------------------|--------|--------|
| Return on average equity | 3.94% | 4.65% |
| Return on average resources | 1.45% | 1.71% |
| Net interest margin | 6.12% | 6.86% |
| Risk Based Capital Adequacy Ratio | 43.74% | 43.13% |

Concentration of credits presented at Amortized Costs:

| | 2018 | |
|---|----------------------|---------------------|
| | In Millions of Pesos | Concentration Ratio |
| Agriculture, Forestry and Fishing | 20.12 | 6.38% |
| Manufacturing | 3.08 | 0.98% |
| Construction | 68.14 | 21.61% |
| Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles | 39.54 | 12.54% |
| Accommodation and Food Service Activities | 0.12 | 0.04% |
| Transportation and Storage | 12.05 | 3.82% |
| Information and Communication | 0.09 | 0.03% |
| Real Estate Activities | 116.67 | 37.01% |
| Education | 15.59 | 4.95% |
| Human Health and Social Work Activities | 2.69 | 0.85% |
| Arts, Entertainment and Recreation | 0.67 | 0.21% |
| Other Service Activities | 35.57 | 11.28% |
| Salary Based and Other Consumption Loans | 0.93 | 0.30% |
| Total | 315.25 | 100.00% |

Volume of Past-due Loans

| | |
|--|----------------------|
| Past-due not more than 30 days - | 4,773,175.97 |
| Past-due more than 30 but not more than 90 days - | 23,947,171.05 |
| Past-due more than 90 but not more than 120 days - | 13,000,000.00 |
| Past-due more than 120 but not more than 180 days - | - |
| Past-due more than 180 but not more than 365 days - | 1,412,950.30 |
| Past-due more than 365 but not more than 1800 days - | 10,140,788.25 |
| Past-due more than 1800 days - | 897,492.62 |
| TOTALS | 54,171,578.19 |

Breakdown of loans as to security:

| | |
|---|--------------------|
| a. Secured: | |
| Real Estate Mortgage | 292,902,854 |
| Secured by Other Collaterals | 1,843,224 |
| b. Unsecured | 20,505,354 |
| Total Gross of General Provision | 315,251,431 |

Information about DOSRI

| | Secured | Unsecured |
|---------------------------------------|-----------|-----------|
| Current DOSRI Loans | 5,000,000 | 2,000,000 |
| Past due DOSRI Loans - Performing | - | - |
| Past due DOSRI Loans - Non-Performing | - | - |

Total outstanding loans to Directors, Officers.

Stockholders, and Related Interest (DOSRI):

| | |
|---|-----------|
| a. Percent of total DOSRI loans to total loan portfolio | 7,000,000 |
| b. Percent of unsecured DOSRI loans to total DOSRI loans | 2.22% |
| c. Percent of past due DOSRI loans to total DOSRI loans | 28.57% |
| d. Percent of non-performing DOSRI loans to total DOSRI loans | 0.00% |
| | 0.00% |

There is nothing to disclose about nature and amount of contingencies and commitments arising from off-balance sheet items.

Provisions for Probable Losses:

| | |
|---|------------|
| a. Provision for Probable Losses net of any reversal | 11,006,214 |
| b. Allowance for Probable Losses | 30,091 |
| c. General Loan Loss Provision | 2,550,495 |
| d. How Determined: Followed guidelines prescribed by Bangko Sentral ng Pilipinas, for complete discussion please refer to corresponding Notes to Financial Statement. | |

Aggregate amount of secured liabilities and assets pledged as security:

| | |
|---------------------------------|---------------|
| a. Secured liabilities | None |
| b. Assets pledged as security: | |
| > Promissory notes of borrowers | NotApplicable |

Discussion of accounting policies which include, general accounting principles, changes in accounting policies/ practices, policies and methods for determining when assets are impaired, recognizing income on impaired assets and losses on non-performing credits, income recognition, loan fees, premiums and discounts, bank premises/fixed assets, income taxes are all found in the Note 2 of this financial statement.

27 - COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

- a) In the normal course of the Bank's operations, there are outstanding commitments and contingent liabilities such commitments to extend credit, liability to safekeep collateral of borrowers, which are not reflected in the accompanying financial statements. Management believes that, as of December 31, 2018, losses, if any, that may arise from these commitments and contingent liabilities will not have a material effect on the financial statements of the Laguna Prestige Banking Corporation (A Rural Bank).
- b) The Bank has no pending legal cases arising from its normal operation that will put the Bank as defendant as a result of violation of transactions against its clients/depositors.
- c) The Bank had no outstanding issuances of bank guarantee and other similar credit instruments that will put the Bank into obligation in case of non-compliance by the buyer.
- d) The Bank had no outstanding outward and inward bills for collection at the end of the year.

28 - SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE**Requirements Under RR No. 15-2010**

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) as mandated by Revenue Regulations (RR) No. 15-2010. These taxes and licenses information has to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The Bank reported and/or paid the following types of taxes for 2018.

| | |
|---------------------------------|------------------|
| Payment through BIR-Form 1601-E | 329,578 |
| Final Income Taxes Withheld | 1,125,441 |
| Payment through BIR Form 1601-C | 607,037 |
| Corporate Income Tax | 3,497,302 |
| Documentary Stamp | 1,572,798 |
| Percentage Tax (GRT) | 2,513,650 |
| Total | 9,645,806 |

Gross Receipts Tax (GRT)

On January 29, 2004, RA No. 9238 reverted the imposition of GRT on banks and financial institutions. This law is retroactive from January 1, 2004. Further, on May 24, 2005, the amendments on RA No. 9337 was approved imposing the following rates to be collected on gross receipts derived from sources in the Philippines by all banks and non-bank financial intermediaries:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

| | |
|--|----|
| With maturity period of five years or less | 5% |
| With maturity period of more than five years | 1% |

(b) On dividends and equity shares in the net income of subsidiaries 0%

(c) On royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income under Section 32 of the NIRC. 7%

(d) On net trading within the taxable year on foreign currency, debt securities, derivatives, 7%

Provided, however, that in case the maturity period referred to in paragraph (a) is shortened due to pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate of tax shall be applied accordingly.

Documentary Stamp Tax (DST)

The new TRAIN law amended certain provision affecting the DST at rates of all debt instruments, the new imposes P1.50 on each P200 of the face value of the document.

1. Original issuance of shares, ₱2.00 on each ₱200 of the par value; or in case of no-par value based on the actual consideration; or in case of stock dividends based on the actual value of each share.
2. Sales, Agreements to sell, memoranda of sales, deliveries or transfer of shares or certificates of stock: ₱1.50 on each ₱200 of the par value; or in case of no-par value, 50% of the DST paid upon original issuance thereof.
3. Certificates of Profits or Interest in Property or Accumulations: ₱1.00 on each ₱200.00, or fractional part thereof, of the face value of such certificates or memorandum.
4. Bank checks, drafts, certificates of deposit not bearing interest, and other instruments: ₱3.00 on Each instrument.
5. All debt instruments: ₱1.50 on each ₱200.00, or fractional part thereof, of the issue price of any such debt instrument.
6. Each lease, agreement, memorandum, or contract for hire, use or rent of any lands or tenements, or portions thereof: ₱6.00 for the first ₱2,000, or fractional part thereof, and an additional ₱2.00 for every ₱1,000 or fractional part thereof, in excess of the first ₱2,000 for each year of the term of said contract or agreement.
7. Mortgages, pledges, and deeds of trust, (a) when the amount secured does not exceed ₱5,000 = ₱40.00, and (b) on each ₱5,000, or fractional part thereof in excess of ₱5,000 = additional ₱20.00.
8. Certificates: ₱30.00 per certificate.

The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which do not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on instalment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA No. 9243;
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements; bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

Deficiency Tax Assessment and Tax Cases

As of December 31, 2018, the Bank does not have any final deficiency tax assessments with the BIR nor tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

Requirements Under RR No. 19-2011

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

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR; hence, may not be the same as the amounts of revenues reflected in the 2018 statement of comprehensive income.

(a) Taxable Revenues

| | |
|--|-------------------|
| Interest Income From Loans and Receivables | 32,185,349 |
| Non-Interest Income | 7,888,491 |
| Total Taxable Revenue | 40,073,840 |

(b) Cost of Service

| | |
|--|-------------------|
| Net Interest Expense deductible for tax purposes is reduced by 33% of Interest Income subjected to Final Tax, herein the net amount. | 1,103,686 |
| Compensation/fringe benefits | 15,865,285 |
| Supervision/Banking Fees | 122,036 |
| PDIC Insurance | 778,538 |
| Total Direct Costs of Service | 17,869,545 |

(c) Itemized Deductions

The amounts of itemized deductions under the regular tax rate from January to December 31, 2018 are as follows:

| | |
|---|-------------------|
| Advertising and Promotion | 68,541 |
| Donation to Charitable Institutions | 6,248 |
| Communication, Light and Water | 1,397,618 |
| Depreciation | 2,714,176 |
| Fuel and Oil | 658,292 |
| Insurance | 219,372 |
| Office Supplies | 338,816 |
| Professional Fees | 1,316,130 |
| Rental | 1,102,719 |
| Repairs and Maintenance (Materials/Supplies) | 313,733 |
| Representation and Entertainment (up to 1% of Gross Income) | 18,664 |
| Security Services | 1,672,742 |
| Taxes and Licenses | 3,197,886 |
| Transportations and Travels | 109,489 |
| Litigation Expenses | 303,530 |
| Information Technology Expense | 251,113 |
| Other Expenses | 158,987 |
| | <hr/> |
| | 13,848,056 |

Laguna Prestige Banking Corporation (A Rural Bank)

J.P Rizal Blvd., Cabuyao, Laguna

Computation of Income Tax

December 31, 2018

| | |
|--|-------------------|
| Total income | 46,311,312 |
| Less: Income Subject to final tax: | |
| Interest income from T-Bills Investments | 4,458,588 |
| Interest on deposits in banks | 1,778,884 |
| Total Income Subject to Final Tax | 6,237,472 |
| Income Subject to Regular Income Tax | 40,073,840 |
| Less: Allowable deductions: | |
| Direct Costs of Service: | |
| Net Interest Expense deductible for tax purposes is reduced by 33% of Interest | |
| Income subjected to Final Tax, herein the net amount. | 1,103,686 |
| Compensation/fringe benefits | 15,865,285 |
| Supervision/Banking Fees | 122,036 |
| PDIC Insurance | 778,538 |
| Total Direct Costs of Service | 17,869,545 |
| Income Before Ordinary Allowable Deductions (Basis of 2% MCIT) | 22,204,295 |
| Less: Itemized Deductions | |
| Advertising and Promotion | 68,541 |
| Donation to Charitable Institutions | 6,248 |
| Communication, Light and Water | 1,397,618 |
| Depreciation | 2,714,176 |
| Fuel and Oil | 658,292 |
| Insurance | 219,372 |
| Office Supplies | 338,816 |
| Professional Fees | 1,316,130 |
| Rental | 1,102,719 |
| Repairs and Maintenance (Materials/Supplies) | 313,733 |
| Representation and Entertainment (up to 1% of Gross Income) | 18,664 |
| Security Services | 1,672,742 |
| Taxes and Licenses | 3,197,886 |
| Transportations and Travels | 109,489 |
| Litigation Expenses | 303,530 |
| Information Technology Expense | 251,113 |
| Other Expenses | 158,987 |
| Total Allowable Deductions | 13,848,056 |
| Income Subject to Regular Income Tax | 8,356,238 |
| Tax rate | 30% |
| Total tax due under Regular Income Tax | 2,506,871 |
| Total Tax Due Under MCIT | 444,086 |
| Actual Income Tax Due - RCIT is higher | 2,506,871 |
| Less: Income Tax Paid First Three Quarters Under Regular Income Tax | 2,583,030 |
| Less: Creditable Income Tax BIR Form 2307 | 8,516 |
| Still Due (Overpayment) | (84,675) |

COMPUTATION OF MINIMUM CORPORATE INCOME TAX (MCIT)

| | |
|-------------------------------------|----------------------|
| Total taxable income | 40,073,839.64 |
| Less: Direct Costs of Service: | 17,869,545.12 |
| Income Subject to MCIT | 22,204,294.52 |
| MCIT Rate | 2.00% |
| Minimum Corporate Income tax | 444,085.89 |

Laguna Prestige Banking Corporation (A Rural Bank)
J.P Rizal Blvd., Cabuyao, Laguna
Comparison of Audited Financial Statements
and
Submitted Consolidated Balance Sheet &
Income Statement
December 31, 2018

(In Thousand of Pesos)

| Account Titles | Audited Amounts | Submitted Report | Discrepa ncy | Reason for Discrepancy |
|--|--------------------|---------------------|-----------------|--|
| Cash and Other Cash Items | 2,940 | 2,940 | - | |
| Due from Bangko Sentral ng Pilipinas | 12,158 | 12,158 | - | |
| Due from Other Banks | 146,645 | 146,645 | - | |
| Investments - Net | 122,618 | 122,618 | - | |
| Loans and Other Receivables - Net | 303,279 | 303,279 | - | |
| Bank Premises, Furniture, Fixtures and Equipment net | 19,071 | 19,071 | - | |
| Investment Properties - net | 13,789 | 13,789 | - | |
| Other Assets - net | 4,672 | 3,596 | 1,076 | Please refer to the attached audit adjustment sheet. |
| Total Assets | 625,172 | 624,097 | 1,076 | |
| Total Deposit Liabilities | 386,549 | 386,549 | - | |
| Accrued Expenses and Other Liabilities | 9,708 | 7,677 | 2,031 | Please refer to the attached audit adjustment sheet. |
| Total Liabilities | 396,257 | 394,226 | 2,031 | |
| Capital Stock - Common | 10,155 | 10,155 | - | |
| Capital Stock - Preferred | 56 | 56 | - | |
| Retained Earnings Reserve | 659 | 659 | - | |
| Retained Earnings Free | 218,046 | 219,001 | (955) | Please refer to the attached audit adjustment sheet. |
| Total Capital Funds | 228,916 | 229,871 | (955) | |
| Total Liabilities and Capital Funds | 625,172 | 624,097 | 1,076 | |
| Total Gross Income | 46,311 | 46,311 | - | Please refer to the attached audit adjustment sheet. |
| Total Gross Expenses | 37,226 | 38,292 | (1,066) | |

Laguna Prestige Banking Corporation (A Rural Bank)

J.P. Rizal Blvd., Cabuyao, Laguna

Year-end Adjusting Entries

Annual Audit for Year Ended December 31, 2018.

| | | |
|--|-----------|-----------|
| Retained Earnings | 2,031,000 | |
| Dividend Payable | | 2,031,000 |
| To set up additional payable as difference between actually disbursed as compared to Board approved amount. | | |
| Miscellaneous Expense | 10,082 | |
| Retained Earnings | | 10,082 |
| To record to miscellaneous expense reduction of Retained Earnings which cannot be reconciled in the audit. | | |
| Deferred Tax Asset | 992,780 | |
| Provision for (Benefits From) Income Tax | | 992,780 |
| To record deferred tax asset arising from reirement liability. | | |
| Deferred Tax Asset | 84,675 | |
| Income Tax Expense | | 84,675 |
| To record over payment of income tax. | | |
| Income Tax Expense | 1,849 | |
| Deferred Tax Asset | | 1,849 |
| Adjustment to Creditable income tax BIR Form 2307 received in the 4th quarter of the year. To correct the Income Tax expense account and to apply that remaining 2307 to be included in the total overpayment of the year so that it will be carried as deduction in the next income tax return. | | |

Laguna Prestige Banking Corporation (A Rural Bank)

J.P. Rizal Blvd., Cabuyao, Laguna

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018

| Philippine Accounting Standards | | Adopted | Not Adopted | Not Applicable |
|---------------------------------|---|---------|-------------|----------------|
| PAS 1 (Revised) | Presentation of Financial Statements | ✓ | | |
| PAS 1 (Revised) | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| PAS 1 (Revised) | Amendments to PAS 32 and PAS 1: Potable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| PAS 1 (Revised) | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| PAS 2 | Inventories | ✓ | | |
| PAS 7 | Statement of Cash Flows | | | ✓ |
| PAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| PAS 9 | Financial Instruments - Expected Credit Loss Model | ✓ | | |
| PAS 10 | Events after the Reporting Period | | ✓ | |
| PAS 11 | Construction Contracts | ✓ | | |
| PAS 12 | Income Taxes | ✓ | | |
| PAS 13 | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| PAS 16 | Property, Plant and Equipment | | | ✓ |
| PAS 17 | Leases | ✓ | | |
| PAS 18 | Revenue | ✓ | | |
| PAS 19 | Employee Benefits | ✓ | | |
| PAS 20 | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| PAS 19 (Amended)* | Employee Benefits | ✓ | | |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | | | ✓ |
| PAS 22 | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| PAS 23 (Revised) | Borrowing Costs | | | ✓ |
| PAS 24 (Revised) | Related Party Disclosures | | | ✓ |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | ✓ | | |
| PAS 27 | Consolidated and Separate Financial Statements | ✓ | | |
| PAS 27 (Amended)* | Separate Financial Statements | | | ✓ |
| PAS 28 | Investments in Associates | | | ✓ |
| PAS 28 (Amended)* | Investments in Associates and Joint Ventures | | | ✓ |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 31 | Interests in Joint Ventures | | | ✓ |
| PAS 32 | Financial Instruments: Disclosure and Presentation | ✓ | | |
| PAS 33 | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| PAS 34 | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| PAS 35 | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | ✓ | | |
| PAS 36 | Impairment of Assets | ✓ | | ✓ |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | Intangible Assets | ✓ | | |
| PAS 39 | Financial Instruments: Recognition and Measurement | ✓ | | |
| PAS 40 | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | | | ✓ |
| PAS 41 | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| PAS 42 | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| PAS 43 | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| PAS 44 | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| PAS 45 | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | | | ✓ |
| PAS 46 | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| PAS 47 | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| PAS 40 | Investment Property | ✓ | | |
| PAS 41 | Agriculture | | | ✓ |
| PFRS 9 | Financial Instrument - Expected Credit Loss Model | | ✓ | |
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| IFRIC 2 | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| IFRIC 4 | Determining Whether an Arrangement Contains a Lease | | | ✓ |
| IFRIC 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| IFRIC 6 | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| IFRIC 7 | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| IFRIC 8 | Scope of PFRS 2 | | | ✓ |
| IFRIC 9 | Reassessment of Embedded Derivatives | ✓ | | |
| IFRIC 10 | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| IFRIC 10 | Interim Financial Reporting and Impairment | | | ✓ |
| IFRIC 11 | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| IFRIC 12 | Service Concession Arrangements | | | ✓ |