Maybank Philippines, Incorporated

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Maybank Philippines, Incorporated

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Maybank Philippines, Incorporated (the Bank), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Maybank Philippines, Incorporated. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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March 23, 2018

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Cash and Other Cash Items	**₱1,810,596,016**	₱1,583,185,232
Due from Bangko Sentral ng Pilipinas (Note 13)	**15,127,322,201**	14,426,767,427
Due from Other Banks (Note 29)	**2,889,498,085**	6,348,780,329
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 29)	**4,956,434,833**	2,958,465,090
Financial Assets at Fair Value Through Profit or Loss (Note 6)	**1,307,786,178**	471,636,711
Available-for-Sale Investments (Notes 7 and 13)	**5,177,150,968**	2,512,103,228
Held-to-Maturity Investments (Notes 8 and 27)	**2,816,223,510**	3,197,486,656
Loans and Receivables (Notes 9 and 29)	**71,421,303,749**	62,511,818,546
Property and Equipment (Note 10)	**351,562,499**	468,754,669
Investment Properties (Note 11)	**1,286,794,298**	916,914,461
Deferred Tax Assets (Note 26)	**704,435,690**	894,344,140
Other Assets (Note 12)	**701,177,337**	617,664,233
TOTAL ASSETS	**₱108,550,285,364**	₱96,907,920,722
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 13 and 29)		
Demand	**₱22,913,312,795**	₱21,077,745,631
Savings	**20,873,107,088**	18,183,810,657
Time	**36,546,810,365**	37,217,732,132
	80,333,230,248	76,479,288,420
Bills Payable (Notes 14 and 29)	**9,686,420,000**	4,975,977,600
Outstanding Acceptances	**173,142,363**	339,397,801
Manager's Checks	**869,817,972**	727,590,994
Financial Liabilities at Fair Value through Profit or Loss (Notes 17 and 29)	**146,483,530**	84,658,456
Income Tax Payable	**53,293,007**	14,167,198
Accrued Interest, Taxes and Other Expenses (Note 15)	**1,132,558,149**	900,680,431
Subordinated Debt (Note 29)	**1,990,180,683**	–
Other Liabilities (Note 16)	**1,074,014,528**	1,257,983,822
	95,459,140,480	84,779,744,722
EQUITY		
Preferred Stock (Note 19)	**232,539,724**	232,539,724
Common Stock (Note 19)	**10,313,344,184**	10,313,344,184
Cost of Share-based Payments (Note 19)	**262,761,718**	262,761,718
Surplus Reserve (Note 19)	**49,428,986**	45,872,414
Surplus	**2,395,635,576**	1,390,543,833
Net Unrealized Loss on Available-for-Sale Investments (Note 7)	**(72,471,699)**	(11,757,110)
Remeasurement Losses on Retirement Plan (Note 21)	**(87,955,567)**	(116,764,352)
Cumulative Translation Adjustment	**(1,754,433)**	12,019,194
Treasury Shares (Note 19)	**(383,605)**	(383,605)
	13,091,144,884	12,128,176,000
TOTAL LIABILITIES AND EQUITY	**₱108,550,285,364**	₱96,907,920,722

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016
INTEREST INCOME ON		
Loans and receivables (Notes 9 and 29)	**₱5,800,078,875**	₱5,106,362,752
Financial investments (Note 20)	**376,346,533**	332,274,662
Interbank loans receivable and securities purchased under resale agreements (Note 29)	**91,109,442**	46,457,436
Due from Bangko Sentral ng Pilipinas and other banks (Note 29)	**42,639,168**	111,656,054
	6,310,174,018	5,596,750,904
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 29)	**1,284,825,141**	1,045,221,202
Bills payable and other borrowings (Notes 14 and 29)	**130,435,644**	64,489,273
Financial liabilities at fair value through profit or loss (Notes 17 and 29)	**26,029,720**	39,443,425
	1,441,290,505	1,149,153,900
NET INTEREST INCOME	**4,868,883,513**	4,447,597,004
OTHER INCOME AND CHARGES		
Service charges, fees and commissions (Notes 23 and 29)	**659,200,211**	572,231,021
Foreign exchange gains - net	**112,702,007**	31,365,769
Net trading gains (Note 22)	**31,078,839**	102,553,898
Loss on foreclosures	**(44,014,371)**	(46,685,630)
Gain (loss) on sale of properties	**(11,607,779)**	94,236,786
Miscellaneous (Note 24)	**235,470,509**	141,115,846
TOTAL OPERATING INCOME	**5,851,712,929**	5,342,414,694
OTHER EXPENSES AND CHARGES		
Compensation and fringe benefits (Notes 21 and 29)	**1,570,698,774**	1,465,638,611
Taxes and licenses	**586,771,127**	503,509,947
Depreciation and amortization (Notes 10, 11 and 12)	**401,599,265**	331,369,422
Provision for impairment and credit losses (Notes 9, 11 and 12)	**334,000,217**	1,266,014,287
Occupancy (Note 25)	**279,191,533**	285,206,916
Insurance	**167,597,522**	153,300,245
Security, messengerial and janitorial	**146,189,904**	182,529,109
Miscellaneous (Note 24)	**880,330,813**	763,684,667
TOTAL OPERATING EXPENSES	**4,366,379,155**	4,951,253,204
INCOME BEFORE INCOME TAX	**1,485,333,774**	391,161,490
PROVISION FOR INCOME TAX (Note 26)	**476,685,459**	44,398,568
NET INCOME	**₱1,008,648,315**	₱346,762,922

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
NET INCOME	**₱1,008,648,315**	₱346,762,922
OTHER COMPREHENSIVE INCOME (LOSS)		
***Items that may be reclassified to profit or loss in subsequent periods*:**		
Net change in unrealized gain (loss) on available-for-sale investments (Note 7)	**(60,714,589)**	17,991,594
Cumulative translation adjustment	**(13,773,627)**	713,463
Item that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on retirement plan (Note 21)	**41,155,407**	(19,059,554)
Benefit from (provision for) income tax	**(12,346,622)**	5,717,866
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(45,679,431)**	5,363,369
TOTAL COMPREHENSIVE INCOME	**₱962,968,884**	₱352,126,291

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED

STATEMENTS OF CHANGES IN EQUITY

	Preferred Stock (Note 19) "A"	"B"	"C"	Common Stock (Note 19)	Cost of Share-Based Payment (Note 19)	Surplus Reserve (Note 19)	Surplus	Cumulative Translation Adjustment	Remeasurement Losses on Retirement Plan	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	Treasury Shares (Note 19)	Total
Balances at January 1, 2017	**₱4,440,000**	**₱8,880,000**	**₱219,219,724**	**₱10,313,344,184**	**₱262,761,718**	**₱45,872,414**	**₱1,390,543,833**	**₱12,019,194**	**(₱116,764,352)**	**(₱11,757,110)**	**(₱383,605)**	**₱12,128,176,000**
Net income	–	–	–	–	–	–	**1,008,648,315**	–	–	–	–	**1,008,648,315**
Other comprehensive income (loss)	–	–	–	–	–	–	–	**(13,773,627)**	**28,808,785**	**(60,714,589)**	–	**(45,679,431)**
Total comprehensive income (loss)	–	–	–	–	–	–	**1,008,648,315**	**(13,773,627)**	**28,808,785**	**(60,714,589)**	–	**962,968,884**
Transfer to surplus reserve	–	–	–	–	–	**3,556,572**	**(3,556,572)**	–	–	–	–	–
Balances at December 31, 2017	**₱4,440,000**	**₱8,880,000**	**₱219,219,724**	**₱10,313,344,184**	**₱262,761,718**	**₱49,428,986**	**₱2,395,635,576**	**(₱1,754,433)**	**(₱87,955,567)**	**(₱72,471,699)**	**(₱383,605)**	**₱13,091,144,884**
Balances at January 1, 2016	₱4,440,000	₱8,880,000	₱219,219,724	₱10,313,344,184	₱262,761,718	₱42,330,026	₱1,047,323,299	₱11,305,731	(₱103,422,664)	(₱29,748,704)	(₱383,605)	₱11,776,049,709
Net income	–	–	–	–	–	–	346,762,922	–	–	–	–	346,762,922
Other comprehensive income (loss)	–	–	–	–	–	–	–	713,463	(13,341,688)	17,991,594	–	5,363,369
Total comprehensive income (loss)	–	–	–	–	–	–	346,762,922	713,463	(13,341,688)	17,991,594	–	352,126,291
Transfer to surplus reserve	–	–	–	–	–	3,542,388	(3,542,388)	–	–	–	–	–
Balances at December 31, 2016	₱4,440,000	₱8,880,000	₱219,219,724	₱10,313,344,184	₱262,761,718	₱45,872,414	₱1,390,543,833	₱12,019,194	(₱116,764,352)	(₱11,757,110)	(₱383,605)	₱12,128,176,000

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,485,333,774**	₱391,161,490
Adjustments for:		
Provision for impairment and credit losses (Notes 9,11 and 12)	**334,000,217**	1,266,014,287
Depreciation and amortization (Notes 10, 11 and 12)	**401,599,265**	331,369,422
Amortization of net premium on:		
Held-to-maturity investments (Note 20)	**34,044,282**	33,572,538
Available-for-sale investments (Note 20)	**5,902,474**	15,134,502
Realized trading gain on sale of available-for-sale investments (Note 22)	**(53,546,784)**	(52,771,220)
Net loss (gain) on sale of:		
Investment properties and other properties acquired	**11,512,809**	(93,837,175)
Property and equipment	**94,970**	(399,611)
Loss on foreclosure of investment properties and other properties acquired	**44,014,371**	46,685,630
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables	**(10,468,741,756)**	(5,499,735,567)
Financial assets at fair value through profit or loss	**(835,781,243)**	296,026,204
Other assets	**(11,101,650)**	58,726,644
Increase (decrease) in the amounts of:		
Deposit liabilities	**3,853,941,828**	9,422,229,579
Financial liabilities at fair value through profit or loss	**61,456,850**	(1,887,660)
Outstanding acceptances	**(166,255,438)**	275,535,571
Accrued interest, taxes and other expenses	**231,877,718**	192,103,782
Manager's checks	**142,226,978**	63,972,765
Other liabilities	**(146,318,330)**	(265,734,184)
Net cash provided by (used in) operations	**(5,075,739,665)**	6,478,166,997
Income taxes paid	**(259,997,822)**	(278,156,945)
Net cash provided by (used in) operating activities	**(5,335,737,487)**	6,200,010,052
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale investments	**(8,035,332,153)**	(1,718,121,781)
Held-to-maturity investments	**(251,663,863)**	(59,471,241)
Property and equipment (Notes 10 and 31)	**(70,866,570)**	(91,088,584)
Software costs (Note 12)	**(85,485,035)**	(72,239,634)
Proceeds from:		
Sale of available-for-sale investments	**5,357,214,134**	2,165,407,330
Maturities of held-to-maturity investments	**598,882,727**	1,061,269,252
Disposals of property and equipment (Note 10)	**3,809,367**	5,283,600
Sale of investment properties (Note 11)	**20,426,778**	43,317,675
Disposals of other properties acquired (Note 12)	**578,555,703**	582,241,163
Maturity of interbank loans receivable and securities purchased under resale agreements (Note 31)	**–**	10,223,315
Net cash provided by (used in) investing activities	**(1,884,458,912)**	1,926,821,095

(Forward)

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (settlements) of bills payable	**₱4,710,442,400**	(₱957,347,200)
Proceeds from subordinated debt	**1,990,180,683**	–
Net cash provided by (used in) financing activities	**6,700,623,083**	(957,347,200)
CUMULATIVE TRANSLATION ADJUSTMENT	**(13,773,627)**	713,463
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(533,346,943)**	7,170,197,410
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**1,583,185,232**	1,860,701,925
Due from Bangko Sentral ng Pilipinas (BSP)	**14,426,767,427**	12,593,448,543
Due from other banks	**6,348,780,329**	3,557,986,482
Interbank loans receivable and securities purchased under resale agreements (SPURA) (Note 31)	**2,958,465,090**	134,863,718
	25,317,198,078	18,147,000,668
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**1,810,596,016**	1,583,185,232
Due from BSP	**15,127,322,201**	14,426,767,427
Due from other banks	**2,889,498,085**	6,348,780,329
Interbank loans receivable and SPURA (Note 31)	**4,956,434,833**	2,958,465,090
	₱24,783,851,135	₱25,317,198,078

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	2017	2016
Interest received	**₱6,240,314,282**	₱5,623,631,645
Interest paid	**1,378,394,843**	1,140,285,746

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Maybank Philippines, Incorporated (the Bank) is a commercial bank incorporated in the Philippines on January 3, 1953 to provide banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services through its 74 and 80 branches as of December 31, 2017 and 2016, respectively.

On October 12, 1999, the Securities and Exchange Commission (SEC) approved the extension of the corporate term of the Bank for another 50 years. The Bank is 99.97% owned by Malayan Banking Berhad (the Parent Company) incorporated in Malaysia.

The Bank's principal and registered place of business is Maybank Corporate Centre, 7th Avenue corner 28th Street, Bonifacio Global City, Taguig City.

The accompanying financial statements of the Bank were approved and authorized for issue by the Bank's Board of Directors (BOD) on March 23, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value.

The financial statements of the Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of the RBU and FCDU is Philippine peso (PHP) and United States dollar (US$), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP. The financial statements of these units are combined after eliminating inter-unit accounts.

Amounts are presented to the nearest PHP unless otherwise stated.

Statement of Compliance

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 18.

Changes in Accounting Policies and Disclosures
The Bank applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have any impact on the Bank's financial statements.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Bank has provided the required information in Note 31 to the financial statements. As allowed under the transition provisions of the standard, the Bank did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Adoption of these amendments did not have any impact on the Bank's financial statements as the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

Significant Accounting Policies

Foreign Currency Translation

Transactions and balances
The books of accounts of the RBU are maintained in PHP, while those of the FCDU are maintained in US$. For financial reporting purposes, the foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP based on the Philippine Dealing System (PDS) closing rate prevailing at the end of the year (for assets and liabilities) and at the exchange rates prevailing at transaction dates (for income and expenses). Foreign exchange differences arising from foreign currency translation and revaluation of foreign currency-denominated assets and liabilities in the RBU, except for nonmonetary assets, are credited to or charged against operations in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency at the PDS closing rate prevailing at the reporting date, and its income and expenses are translated at the exchange rates prevailing at transaction dates. Exchange differences arising on translation are taken directly to other comprehensive income (OCI) under 'Cumulative translation adjustment' in the statement of comprehensive income.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), foreign currency notes and coins, petty cash fund, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA) with the BSP that are

convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Regular way purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Any change in fair value of financial asset is recognized in the statement of income for financial assets at FVPL and it is recognized in OCI for assets classified as AFS investments. Deposits, amounts due to banks and customers and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Derivatives are recognized on trade date basis. Trade date is the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to (a) the recognition of an asset to be received or the liability to be paid on the trade date, and (b) the derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value plus, in the case of financial assets and financial liabilities not at FVPL, any directly attributable cost of acquisition or issue. The Bank classifies its financial assets in the following categories: financial assets at FVPL, AFS investments, held-to-maturity (HTM) investments and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Financial liabilities are categorized into financial liabilities at FVPL and other financial liabilities carried at amortized cost. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Reclassification of financial assets

The Bank may choose to reclassify a non-derivative trading financial asset out of the held-for-trading (HFT) category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the HFT or AFS investments categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Bank may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Bank has the ability to hold the financial instruments to maturity.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate (EIR). Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded directly in equity is recycled to the statement of income.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. EIR for financial assets reclassified to loans and receivables and HTM categories is determined at the reclassification date. Further increases in estimates of cash flows adjust EIR prospectively.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a 'Day 1'difference) in the statement of income in 'Net trading gains (losses)' unless it qualifies for recognition as some other type of asset. In cases where transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

HFT investments
HFT investments represent government securities purchased and held principally with the intention of selling them in the near term. These securities are classified under financial assets at FVPL and are carried at fair market value. Realized and unrealized gains and losses on these instruments are recognized as 'Net trading gains (losses)'in the statement of income. Interest earned on HFT investments is reported under 'Interest income on financial investments' in the statement of income. Quoted market prices are used to determine the fair value of these financial instruments.

Derivative instruments
The Bank enters into derivative contracts such as interest rate swaps and currency forwards as means of reducing or managing their respective interest and foreign exchange exposures. Such derivative instruments classified as financial assets at FVPL are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income under 'Net trading gains (losses)'. Derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The Bank assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs re-assessment where there is a change to the contract that significantly modifies the cash flows. As of December 31, 2017 and 2016, the Bank has no outstanding embedded derivatives.

Financial instruments designated at FVPL
Financial instruments classified in this category are designated by management on initial recognition when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial instruments designated at FVPL are initially recognized in the statement of financial position at fair value. Changes in fair value on financial instruments designated at FVPL are recorded in 'Net trading gains (losses)' in the statement of income. Interest earned or incurred is recognized as 'Interest income' or 'Interest expense', respectively, in the statement of income.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Where the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as 'AFS investments'. The Bank would then be unable to categorize financial instruments as HTM investments for the next two years.

After initial measurement, these investments are subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in the statement of income under 'Interest income on financial investments'. The losses arising from impairment of such investments, if any, and effects of revaluation of foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables
This category includes amounts due from BSP and other banks, interbank loans receivable and SPURA and loans and receivables. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as 'Financial assets at FVPL' or 'AFS investments'.

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

When the estimated cash flows from the financial assets are revised, the carrying amount of the financial asset shall be adjusted to reflect the actual and revised estimated cash flows. The carrying amount shall be computed as the present value of estimated future cash flows at the financial instrument's original EIR or, when applicable, the revised EIR. Any difference shall be recognized in profit or loss as gain or loss on restructuring.

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

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

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

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under deposit liabilities, bills payable and other payables, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

<u>Derecognition of Financial Instruments</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

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

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

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

Financial assets at amortized cost
For loans and receivables, due from BSP, due from other banks and interbank loans receivable and SPURA, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of income. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral has been realized. Subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a written-off account is later recovered, the recovery is recognized as 'Miscellaneous income' in the statements of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

For the purpose of a collective impairment evaluation, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

AFS investments
For AFS investments, the Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity securities classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from OCI and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income on financial investments' in the statement of income. Subsequently, if the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

HTM investments
For HTM investments, the Bank assesses whether there is objective evidence of impairment at each reporting date. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to 'Provision for impairment and credit losses' account in the statement of income and the allowance account is reduced.

The HTM investments, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral has been realized.

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

Financial Guarantees
In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under 'Other liabilities'. Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service charges, fees and commissions', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Provision for impairment and credit losses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service charges, fees and commissions', when the guarantee is discharged, cancelled or has expired.

Property and Equipment
Depreciable properties, including condominium units, furniture, fixtures and equipment and leasehold improvements, are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the equipment if the recognition criteria are met, but excludes repairs and maintenance cost.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization are computed using the straight-line method over the estimated useful life (EUL) of the assets.

The EUL of property and equipment are as follows:

Condominium units	50 years
Furniture, fixtures and equipment	5-7 years
Leasehold improvements	5 years or term of the lease, whichever is shorter

Construction in progress (CIP) represents furniture, fixtures and equipment and leasehold improvements under construction or purchased by the Bank but not yet used in operations. CIP is not depreciated until such time that the relevant assets become completed and ready for use in operations.

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statement of income (see accounting policy on Impairment of Nonfinancial Assets).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the fair value of the asset given up. Foreclosed properties are classified under ‘Investment properties’ upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff’s Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in ‘Gain or loss on foreclosures’ account in the statement of income.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to profit or loss in the year in which the costs are incurred.

Subsequent to initial recognition, land is carried at cost less any impairment in value while depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over 5-10 years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or development with a view to sale.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under ‘Gain or loss on sale of properties’ in the year of retirement or disposal.

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Bank applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the EUL of three years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Intangible Assets

The Bank’s intangible assets included under ‘Other assets’ in the statement of financial position consist of software costs.

Software costs

Costs associated with developing or maintaining computer software programs are recognized as expense as incurred. Costs that are directly associated with identifiable and unique software controlled by the Bank and will generate economic benefits beyond one year, are capitalized.

Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as capital improvements and added to the original cost of the software. Capitalized computer software costs are amortized on a straight-line basis over four years.

Impairment of Nonfinancial Assets

Property and equipment, Investment properties, Other properties acquired and Software costs

At each reporting date, the Bank assesses whether there is any indication that its property and equipment, investment properties, other properties acquired and software costs may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the greater of its fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Income Taxes

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine Tax Law. Income tax is recognized in the statement of income, except to the extent that it relates to items directly in OCI.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused MCIT over RCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized directly in OCI is also recognized in OCI and not in the statement of income.

Share-Based Payment Transactions

Employees of the Bank receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuation expert using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Parent Company.

The cost of equity-settled transactions is recognized in the statement of income together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the vesting date. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

Treasury Shares

Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the statement of income on the purchase and sale of the Bank's own equity instruments.

Borrowing Costs

Borrowing costs are recognized as expense in the year in which these costs are incurred using the EIR method.

Revenue Recognition

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

Interest income

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

Unearned discounts on loans are recognized as income over the terms of the loans using the EIR. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Gain (loss) on sale of properties

Gains or losses arising from the disposal of property and equipment, investment properties and other properties acquired shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss in the period of the disposal.

Service charges

Service charges are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Fees and commissions

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Net trading gains (losses)

Net trading gain (loss) represents results arising from trading activities including all gains and losses from changes in fair value of financial assets and liabilities at FVPL and gains and losses from disposal of financial assets at FVPL and AFS investments.

Rental income

Rental income arising on leased premises is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Dividend income
Dividend income is recognized when the Bank's right to receive payment is established.

Other income
Credit-related income due to late payments and other loan-related fees are recognized in the period they are earned.

Expenses
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Bank. Expenses are recognized when incurred.

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

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

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

Bank as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Occupancy' in the statement of income on a straight-line basis over the lease term.

Bank as lessor
Leases where the Bank does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating lease. Lease payments received are recognized as an income in the statement of income on a straight-line basis over the lease term.

Retirement Cost
Defined benefit plan
The Bank has a funded, noncontributory defined benefit plan administered by a trustee. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. The Bank's retirement cost is determined using the projected unit credit method. The retirement cost is generally funded through payments to a trustee-administered fund, determined by periodic actuarial calculations.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets (excluding net interest on defined benefit asset) and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in the other comprehensive income account 'Remeasurement gains (losses) on retirement plan' are not reclassified to another equity account in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Defined contribution plan
The Bank also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Compensation and fringe benefits' in the statement of income. Unpaid contributions, if any, are recorded as a liability.

Employee leave entitlement
Employee entitlement to annual leave is recognized as a liability when the employees render the services that increases their annual leave entitlement. The cost of accumulating annual leave are measured as the additional amount that the Bank expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense'.

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

Events after the Reporting Date
Post year-end events that provide additional information about the Bank's position at the reporting date (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.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Equity
Capital stock (preferred stock and common stock) is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital Paid in Excess of Par Value' account.

Deposit for stock subscription represents payment made on subscription of shares which cannot be directly credited to capital stock pending approval of the SEC of the increase in the authorized capital stock of the Bank.

'Surplus' represents accumulated earnings of the Bank.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

New accounting standards and interpretations that have been issued but are not yet effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Bank intends to adopt the following pronouncements when they become effective

Effective beginning on or after January 1, 2018

- 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 Bank has assessed that the adoption of these amendments will not have any significant impact on the 2018 financial statements.

- 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).

  As a result of the application of the classification and measurement requirements of PFRS 9, debt securities currently held as available-for-sale (AFS) investments under PAS 39 are expected to be classified as either at amortized cost for securities belonging to portfolios managed under a “hold” business model or at FVOCI with recycling to profit or loss for securities belonging to portfolios managed under a “hold and sell” business model. The Bank expects to reclassify more debt securities currently held as AFS investments to FVOCI than to amortized cost. Loans and receivables are expected to be managed under a “hold” business model and thus qualify for amortized cost measurement.

  Investments in unquoted equity shares carried at cost and quoted equity shares carried at fair value which are both currently held as AFS investments under PAS 39 will be measured at FVOCI, with no recycling to profit or loss.

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.

Incurred loss versus expected credit loss methodology
The application of ECL will significantly change the Bank's credit loss methodology and models. ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment. The ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier under PFRS 9.

Staging assessment
For non-credit-impaired financial instruments:
- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR 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.

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.

Definition of "default"
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 91 days past due on its contractual payments. The Bank set a loss identification period (the estimated timeframe needed to identify a loss event) of 12 months for auto and mortgage loans and 6 months for the rest of the consumer loans. 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 unlikeliness to pay.

Credit risk at initial recognition
The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative.

Significant increase in credit risk
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment. The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio. EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

Forward-looking information
The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, inflation rates, unemployment rates, interest rates and BSP statistical indicators. While the forward-looking models used as an overlay to the ECL may not always accurately capture the market condition at the time of financial disclosure, quantitative adjustments based on qualitative considerations may be occasionally made as temporary adjustments/overlays when such inaccuracies are identified.

The Bank has determined that the financial and operational aspects of the ECL methodologies under PFRS 9 will have an impact to the 2018 financial statements.

(b) Hedge accounting

The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Bank has assessed that the adoption of these amendments will not have any impact in the 2018 financial statements.

The Bank has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Bank is continuously refining its internal controls and processes which are relevant in the proper implementation of the PFRS 9.

- 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 new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Bank since the Bank's activities are not predominantly connected with insurance or issue insurance contracts.

- 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 retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date using the full retrospective method.

  The Bank is currently assessing the impact of adopting PFRS 15.

- 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.

  Since the Bank's current practice is in line with the clarifications issued, the Bank does not expect any effect on its financial statements upon adoption of these amendments.

- 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. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity 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.

  Since the Bank's current practice is in line with the clarifications issued, the Bank does not expect any effect on its financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.
PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Bank is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Bank is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

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

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

Judgments

HTM investments

The Bank classifies quoted non-derivative financial assets with fixed or determinable payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances (such as selling an insignificant amount close to maturity), it will be required to reclassify the entire class as 'AFS investments'. The investments would therefore be remeasured at fair value and not at amortized cost.

Estimates

a. *Credit losses on loans and receivables*
   The Bank reviews its loan portfolio to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the statements of income, in particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment assessment on exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

In 2016, the Bank changed its estimation process to increase precision in estimating the collective impairment of its corporate, commercial and consumer loans and to comply with BSP Circular 855, *Guidelines on Sound Credit Management Practices*. For corporate and commercial loans, the accounts are now grouped based on the Bank's internal credit risk rating. The Bank developed a probability of default (PD) for each internal credit risk rating based on the Bank's historical experience. Prior to this change, the corporate and commercial loans are grouped on the basis of the industry of the borrower and loss rates are based on the historical loss experience within that industry. For consumer loans, given the absence of individual risk rating, the accounts are grouped based on their respective aging (i.e. current, 1-30 days, 31-60 days, 61-90 days) and the PD is estimated based on the likelihood of an account moving to non-performing status (at least 91 days past due). The Bank set a loss identification period of 12 months for auto and mortgage loans and 6 months for the rest of the consumer loans. In addition, in the calculation of loss given default rate (LGD), the Bank now considers the curing of the defaulted accounts, cash recoveries after default, recoveries from foreclosure and sale of collateral and write-off of accounts. The change in the collective impairment methodology was approved by the Bank's BOD in 2016.

As of December 31, 2017 and 2016, the carrying value of loans and receivables amounted to ₱71.4 billion and ₱62.5 billion, respectively. As of December 31, 2017 and 2016, allowance for credit and impairment losses amounted to ₱1.5 billion and ₱2.1 billion, respectively.

b. *Recognition of deferred tax assets*

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

As of December 31, 2017 and 2016, the Bank recognized deferred tax assets amounting to ₱704.4 million and ₱894.3 million, respectively. Based on forecast, management assessed that it is probable that future taxable income will be available to utilize the deferred tax assets.

c. *Fair values of derivatives*

The fair values of derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

To the extent practical, valuation models use only market observable data, however areas such as credit risk (both own and counterparty) require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of derivative instruments. As of December 31, 2017 and 2016, the fair value of the Bank's derivative assets amounted to ₱65.0 million and ₱60.4 million, respectively (see Note 6). As of December 31, 2017 and 2016, the fair value of the Bank's derivative liabilities amounted to ₱146.5 million and ₱84.7 million, respectively (see Note 17).

d. *Defined benefit retirement plan*
The cost of the defined benefit retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuation. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate single weighted average discount rate, management considers the interest rates of government securities, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases pension increases are based on historical annual merit, market and promotional increase and future inflation rates. The details of the assumptions used in the actuarial valuation are provided in Note 21.

The Bank's net pension liability as of December 31, 2017 and 2016 amounted to ₱364.8 million and ₱405.9 million, respectively (see Notes 16 and 21).

4. Financial Risk Management Objectives and Policies

General Risk Management Structure
Risk Management structure within the Bank consists of three lines of defense consisting of risk taking units, risk control units, and Internal Audit. The BOD, through the Risk Management Committee (RMC), performs overall supervision of risk management. Loan proposals and other transactions beyond the approval level of the management committees, particularly those involving directors, officers, stockholders and related interests (DOSRI), are elevated to the BOD, which is the highest authority within the Bank. The RMC is a Board-level Committee that is responsible for setting the Bank's corporate risk policy and strategies. It ensures the adequacy of the risk management infrastructure of the Bank to address the risks it faces in its banking activities including credit, market, operational, liquidity and other material risks.

Senior Management also plays an integral role in ensuring proper implementation of risk policies and strategies. The Bank has the following committees that manage the Bank's key risk areas:

- Credit Committee (CC) is responsible for the approval of credit facilities as well as policies, frameworks and methodologies pertaining to credit risk.

  The CC has a maximum approving limit of ₱250.0 million for secured and ₱100.0 million for unsecured loans. Proposals beyond this level have to be escalated to Bank's Management Credit Committee for endorsement to BOD for approval.

- Asset and Liability Management Committee (ALCO) is responsible for recommending strategies, policies and frameworks to identify, measure, control, monitor and manage market and liquidity risks, as well as balance sheet and capital management to the RMC/Board for approval.

- Management Committee is responsible for directing and reviewing the Bank's overall operations to achieve its objectives and targets.

Risk Management is functionally independent of risk-taking units within the Bank. It is composed of Regional Group Credit Management (RGCM), Credit Risk Management (CRM), Market Risk Management (MRM), Operational Risk Management (ORM), Enterprise Risk Management (ERM), Credit Risk Review, Credit Investigation and Appraisal, and Credit Risk Portfolio Analytics (CRPA). It is responsible for the development of measures to ensure that the risk inherent in the Bank's activities are properly identified, measured, controlled and reported.

Risk Management has the following general objectives:

- To promote risk management culture and philosophy of risk awareness
- To assist risk-taking business and operating units in understanding and measuring risk/return profiles
- To develop risk and control infrastructure
- To develop, disseminate, and maintain formalized risk policies, frameworks, methodologies and tools
- To provide effective means of differentiating the degree of risk in the various business portfolio of the Bank

Internal Audit provides independent assurance of the effectiveness of the risk management approach. The Audit Committee, which is a Board-level committee, is responsible for the overall supervision of the audit function within the organization.

Risk Measurement and Reporting

To measure risk of default for corporate and commercial loans, the Bank makes use of the International Risk Rating System (IRRS) which consists of 25 risk grades that are mapped to external ratings, as well as risk classification according to BSP guidelines. The IRRS is used as a tool for decision making as well as in determining appropriate pricing for loan accounts. The key risk indicators measures the Bank's credit risk position against targets, historical performance or industry average in selected areas as of a given period.

In terms of measuring the Bank's ability to withstand the impact of stress conditions, stress testing methodology is used. Through stress testing, the impact of exceptional events on the Bank's asset quality, profitability and capital adequacy is measured.

In terms of reporting, CRPA prepares regular loan portfolio reports covering areas such as business growth, asset quality, concentration of exposures and compliance to applicable regulatory and internal guidelines. These reports are submitted to the CC, RMC, BOD and other end-users.

Risk Mitigation

As part of its risk management, the Bank uses derivatives and other treasury products to manage exposures resulting from changes in interest rates and fluctuations in foreign exchange levels.

Where appropriate, the Bank requires a second way out in the form of eligible collaterals or guarantee/surety to mitigate credit risk.

Credit Risk

Credit risk comprises bulk of the Bank's risk capital. Credit risk is managed through a two-pronged approach: the credit risk management and credit portfolio management.

CRM undertakes the improvement and implementation of Group risk frameworks, tools, and methodologies for the identification, measurement, monitoring, control and pricing of credit risk in accordance to the Bank's risk appetite and lending direction and strategies. Methodologies are implemented in coordination with the Parent Company to ensure consistency of risk management approach across the Maybank Group. Where applicable, methodologies and tools are adopted from the Parent Company and customized to the local operating environment.

CRM is responsible for setting concentration limits and monitoring exposures against these limits. CRPA Unit also prepares various credit risk reports and undertakes the development of credit risk application and behavioral scoring models which are submitted to Management, RMC, and the BOD, and subsequently deployed in the daily credit underwriting and portfolio management operations of the various lending units.

Part of the Bank's Credit Risk Management processes are to develop and implement various mechanisms to support business generation, capital optimization, portfolio management, and Basel III implementation. It ensures that credit approval structures follow the "four eyes policy" for appropriate check and balance. The Credit Review Unit undertakes the post-approval review of selected loan accounts.

Collateral and other credit enhancements
There are various collaterals and securities that are acceptable to the Bank. In evaluating acceptability of collateral, three factors are considered: control, disposability and margin.

The Account Officer is primarily responsible in ensuring the acceptability of collaterals/security obtained to secure the loan based on established minimum acceptance criteria and maximum margin of financing.

The Account Officer is responsible in ensuring that the collaterals are duly and regularly inspected and appraised, adequately insured where necessary, and payment of applicable taxes are updated.

The Account Officer also ensures that the approved margin of financing is maintained throughout the life of the loan.

Loans or portions thereof that are covered by collateral/security including but not limited to the following are considered secured:

- Registered First Real Estate Mortgage over eligible real estate properties with road right of way
- Peso or US Dollar-denominated deposits that are maintained with the Bank
- Government securities
- Motor vehicles
- Machinery and equipment
- Publicly-traded shares of stocks

Direct and indirect borrowings of the Philippine government is treated as non-risk and considered as secured.

Borrowings secured by guarantees/collateral issued by the Parent Company and Maybank branches and subsidiaries are considered secured.

Maintenance, marketing and disposal of the Bank's acquired assets are being undertaken by its affiliate, Philmay Properties, Inc. (PPI). Pending disposal of acquired assets, PPI arranges for the properties to be leased on a short-term basis by interested parties.

Credit risk exposures

The table below shows the Bank's maximum exposure to credit risk on loans and receivable as of December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Loans and receivables:				
Loans:				
Corporate	**₱23,381,072,957**	**₱18,341,864,976**	₱22,292,012,962	₱21,451,736,585
Commercial	**3,515,738,708**	**1,567,906,681**	3,675,948,076	2,764,802,846
Consumer:				
Auto loans	**33,508,845,012**	**14,838,153**	26,888,835,076	345,057,516
Housing loans	**7,594,107,167**	–	6,311,332,818	–
Others	**1,947,523,034**	**1,947,523,034**	1,967,046,055	1,967,046,055
	69,947,286,878	**21,872,132,844**	61,135,174,987	26,528,643,002
Accounts receivable:				
Corporate	**677,396,493**	**61,546,267**	787,320,993	210,766,762
Individual	**124,737,607**	**124,737,607**	9,376,173	8,922,420
	802,134,100	**186,283,874**	796,697,166	219,689,182
Accrued interest receivable	**610,792,806**	**600,197,849**	499,880,103	470,677,038
Sales contract receivable:				
Individual	**57,583,230**	–	61,701,627	–
Corporate	**3,184,345**	–	6,891,266	–
	60,767,575	–	68,592,893	–
RCOCI	**322,390**	**322,390**	11,473,397	11,473,397
	₱71,421,303,749	**₱22,658,936,957**	₱62,511,818,546	₱27,230,482,619

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2017 and 2016.

Credit risk management has set concentration limits according to various categories such as individual/group borrower, banks, countries, collateral, economic sectors, and product types to ensure optimal portfolio diversification.

Risk Concentration

Concentration of credit arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. Concentration limits are set by CRM, endorsed by RMC, and approved by the BOD. These include limits by business segments, credit facility/portfolio, collateral/security, economic sector, loan size and obligor type. These limits are established to ensure diversification, capital optimization and appropriate management of concentration risk.

The tables below show the distribution of maximum credit exposure by industry sector of financial assets and off-balance sheet items before taking into account the fair value of the loan collateral or other credit enhancements (amounts in thousands):

	December 31, 2017		December 31, 2016	
	Amount	**%**	Amount	%
Loans and Receivables				
Construction and real estate	**₱16,997,090**	**23.80**	₱13,106,551	20.97
Wholesale and retail, repair of motor vehicles, motorcycles and personal household goods	**12,205,772**	**17.09**	9,711,008	15.53
Transportation, storage and communication	**6,860,294**	**9.61**	6,260,912	10.02
Power, electricity and water distribution	**4,734,541**	**6.63**	4,184,403	6.69
Trading and manufacturing	**3,930,034**	**5.50**	3,410,348	5.46
Financial intermediaries	**3,689,184**	**5.17**	3,207,828	5.13
Agriculture	**1,536,612**	**2.15**	1,857,019	2.97
Government	**996,946**	**1.40**	917,095	1.47
Other	**20,470,831**	**28.66**	19,856,654	31.76
	71,421,304	**100.00**	62,511,818	100.00
Loans and Advances to Banks*				
Government	**20,083,757**	**87.45**	17,385,232	73.25
Financial intermediaries	**2,889,498**	**12.55**	6,348,780	26.75
	22,973,255	**100.00**	23,734,012	100.00
Trading and Financial Investment Securities**				
Government	**5,592,053**	**60.12**	2,896,518	46.86
Financial intermediaries	**1,810,042**	**19.46**	1,784,681	28.87
Trading and manufacturing	**1,533,188**	**16.48**	415,911	6.73
Construction and real estate	**317,251**	**3.41**	56,985	0.92
Transportation, storage and communication	**45,471**	**0.49**	922,272	14.92
Others	**3,156**	**0.03**	104,860	1.70
	9,301,161	**100.00**	6,181,227	100.00
Other***				
Wholesale and retail, repair of motor vehicles, motorcycles and personal household goods	**1,855,894**	**71.16**	332,023	13.67
Trading and manufacturing	**517,568**	**19.84**	634,551	26.12
Financial intermediaries	**159,081**	**6.10**	67,983	2.80
Power, electricity and water distribution	**41,500**	**1.59**	1,023,665	42.13
Construction and real estate	**34,081**	**1.31**	63,188	2.60
Others	**–**	**–**	308,077	12.68
	2,608,124	**100.00**	2,429,487	100.00
	₱106,303,844		₱94,856,544	

* Consists of Due from BSP, Due from other banks and Interbank loans receivables and SPURA
** Consists of Financial assets at FVPL, AFS investments and HTM investments
*** Consists of Miscellaneous COCI and Contingent liabilities relating to outstanding letters of credit

Credit quality per class of financial assets
The Bank does not subject its investments to risk rating. It relies on acceptable third party issuer or issue ratings, international or local, as applicable. Any exposure, whether direct or indirect, to the sovereign entity - Republic of the Philippines (ROP) and BSP, is considered non-risk or high grade. Issuances by ROP and BSP are considered as high grade since the chance of default is virtually nil.

Private entities, such as financial institutions or corporations, issuing debt securities, with risk rating similar to ROP/BSP are likewise classified as high grade. Such entities are generally held as top-tier. Companies with third party ratings lower than ROP are classified as standard grade. These are companies that exhibit moderate credit risk with acceptable capacity to meet its financial commitments.

Companies without third party ratings are classified as unrated.

For loans and receivables, the following are subject to risk rating:

- Corporate and commercial loans (except those fully secured by hold-out on deposits)
- Contract-to-sell financing (risk rating on the developer)

Accounts which are not subjected to risk rating, such as consumer loans, are considered unrated.

Loan Grades

- Performing Grade is from Grade 1 to 22 - Grade 1 (i.e. lowest probability of default) is the best grade while Grade 22 (i.e. highest probability of default) is the worst grade.

  a.) High grade (accounts with risk grade of 1 to 10)
  Accounts falling within this classification have good to highly exceptional capacity to meet its financial commitments with very low to low credit risk.

  b.) Standard grade (accounts with risk grade of 11 to 15)
  Accounts falling within this classification have fairly good to fairly acceptable capacity to meet their financial commitments with moderate credit risk.

  c.) Substandard grade (accounts with risk grade of 16 to 22)
  Accounts under this category exhibit high credit or default risk with impairment characteristics that are neither classified under 'past due but not impaired' nor 'individually impaired'.

- Non-Performing Grade is from Grade 23 to 25 which is under past due or impaired.

  a.) Grade 23 is a non-performing grade assigned to borrowers classified as Substandard accounts. These are loans and other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/ liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. Basic characteristics include the following:

    - Weak financial condition and results of operation that leads to the borrower's inability to generate sufficient cash flow for debt servicing, except for start-up firms which shall be evaluated on a case-to-case basis;
    - Past due secured loans and other credit accommodations where properties offered as collateral have been found with defects as to ownership or with other adverse information.
    - Breach of any key financial covenants/agreements that will adversely affect the capacity to pay of the borrower; or
    - Classified "Especially Mentioned" as of the last credit review without adequate corrective action
    - Loans past due for more than 90 days.

  b.) Grade 24 is a non-performing grade assigned to borrowers classified as Doubtful accounts. These are loans and credit accommodations that exhibit severe weaknesses than those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets.

c.) Grade 25 is a non-performing grade assigned to borrowers classified as Loss. These are loans or portions thereof which are considered uncollectible or worthless.

- Start-up companies, regardless of the strength of their percentage have default grade cap of 19.

The tables below show the credit quality by class of financial assets (gross of allowance for credit losses and unearned interest and discounts and other deferred income) of the Bank (in thousands):

	December 31, 2017					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due or Impaired	Total
Due from BSP	**₱15,127,322**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,127,322**
Due from other banks	**2,889,498**	–	–	–	–	**2,889,498**
Interbank loans receivable and SPURA	**4,956,435**	–	–	–	–	**4,956,435**
	22,973,255	–	–	–	–	**22,973,255**
Financial assets at FVPL						
HFT investments:						
Government securities	**1,242,777**	–	–	–	–	**1,242,777**
Derivative assets	**65,009**	–	–	–	–	**65,009**
	1,307,786					**1,307,786**
AFS investments:						
Government securities	**3,053,053**	–	–	–	–	**3,053,053**
Private debt securities	**127,300**	–	–	**1,984,873**	–	**2,112,173**
Quoted equity securities	–	–	–	**8,761**	–	**8,761**
Unquoted equity securities	–	–	–	**3,164**	–	**3,164**
	3,180,353	–	–	**1,996,798**		**5,177,151**
HTM investments:						
Government securities	**1,296,224**	–	–	–	–	**1,296,224**
Private debt securities	**1,520,000**	–	–	–	–	**1,520,000**
	2,816,224	–	–	–	–	**2,816,224**
Loans and receivables:						
Corporate	**8,868,975**	**12,895,871**	**1,556,132**	–	**499,927**	**23,820,905**
Commercial	**363,679**	**1,443,239**	**180,539**	**1,447,677**	**222,607**	**3,657,741**
Consumer:						
Auto loans	–	–	–	**30,213,209**	**3,854,974**	**34,068,183**
Housing loans	–	–	–	**6,845,485**	**865,068**	**7,710,553**
Others	–	–	–	**1,965,320**	**125,190**	**2,090,510**
	9,232,654	**14,339,110**	**1,736,671**	**40,471,691**	**5,567,766**	**71,347,892**
Accounts receivables:						
Corporate	**667,491**	–	–	**106,607**	**557**	**774,655**
Individual	–	–	–	**74,184**	**81,455**	**155,639**
	667,491	–	–	**180,791**	**82,012**	**930,294**
Accrued interest receivable	**144,564**	**107,829**	**3,676**	**257,930**	**119,217**	**633,216**
Sales contracts receivable:						
Individual	–	–	–	**53,470**	**9,776**	**63,246**
Corporate	–	–	–	**3,473**	–	**3,473**
	–	–	–	**56,943**	**9,776**	**66,719**
RCOCI	–	–	–	**322**	–	**322**
	₱40,322,327	**₱14,446,939**	**₱1,740,347**	**₱42,964,475**	**₱5,778,771**	**₱105,252,859**

	December 31, 2016					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due or Impaired	Total
Due from BSP	₱14,426,767	₱–	₱–	₱–	₱–	₱14,426,767
Due from other banks	6,348,780	–	–	–	–	6,348,780
Interbank loans receivable and SPURA	2,958,465	–	–	–	–	2,958,465
	23,734,012	–	–	–	–	23,734,012
Financial assets at FVPL:						
HFT investments:						
Government securities	406,190	–	–	–	–	406,190
Private debt securities	–	4,999	–	–	–	4,999
Derivative assets	60,448	–	–	–	–	60,448
	466,638	4,999	–	–	–	471,637
AFS investments:						
Government securities	1,163,684	–	–	–	–	1,163,684
Private debt securities	309,109	–	–	1,029,165	–	1,338,274
Quoted equity securities	–	–	–	6,981	–	6,981
Unquoted equity securities	–	–	–	3,164	–	3,164
	1,472,793	–	–	1,039,310	–	2,512,103
HTM investments:						
Government securities	1,326,644	–	–	–	–	1,326,644
Private debt securities	1,520,000	–	–	350,843	–	1,870,843
	2,846,644	–	–	350,843	–	3,197,487
Loans and receivables:						
Corporate	9,553,284	9,965,328	1,958,335	515,812	768,496	22,761,255
Commercial	391,955	1,466,467	145,131	1,568,410	498,012	4,069,975
Consumer:						
Auto loans	–	–	–	24,361,575	3,044,059	27,405,634
Housing loans	–	–	–	5,699,084	736,052	6,435,136
Others	–	–	–	1,977,428	204,339	2,181,767
	9,945,239	11,431,795	2,103,466	34,122,309	5,250,958	62,853,767
Unquoted debt securities:						
Government	–	–	–	–	189,167	189,167
	–	–	–	–	189,167	189,167
Accounts receivables:						
Corporate	579,940	–	–	207,818	52,922	840,680
Individual	–	–	–	4,116	57,938	62,054
	579,940	–	–	211,934	110,860	902,734
Accrued interest receivable	76,702	41,217	10,961	269,587	164,889	563,356
Sales contracts receivable:						
Individual	–	–	–	57,730	7,813	65,543
Corporate	–	–	–	6,891	–	6,891
	–	–	–	64,621	7,813	72,434
RCOCI	–	–	–	11,473	–	11,473
	₱39,121,968	₱11,478,011	₱2,114,427	₱36,070,077	₱5,723,687	₱94,508,170

As of December 31, 2017 and 2016, allowance on individually impaired receivables of the Bank amounted to ₱252.7 million and ₱604.1 million, respectively (see Note 9).

Aging analysis of past due but not impaired per class of financial assets
The tables below show the aging analysis of past due but not impaired loans receivables per class of the Bank as of December 31, 2017 and 2016. Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

	December 31, 2017			
	Less than 30 Days	**30 to 59 Days**	**60 to 89 Days**	**Total**
Consumer:				
Auto loans	**₱1,772,117,392**	**₱875,123,473**	**₱274,380,625**	**₱2,921,621,490**
Housing loans	**456,294,824**	**249,117,004**	**72,316,576**	**777,728,404**
Others	**68,207,436**	**19,081,629**	**11,911,607**	**99,200,672**
	2,296,619,652	**1,143,322,106**	**358,608,808**	**3,798,550,566**
Commercial	**1,135,697**	**5,680,200**	**5,639,733**	**12,455,630**
Corporate	**2,687,371**	**–**	**–**	**2,687,371**
	₱2,300,442,720	**₱1,149,002,306**	**₱364,248,541**	**₱3,813,693,567**

	December 31, 2016			
	Less than 30 Days	30 to 59 Days	60 to 89 Days	Total
Consumer:				
Auto loans	₱1,300,339,466	₱876,131,477	₱319,216,601	₱2,495,687,544
Housing loans	367,255,457	206,328,948	53,395,440	626,979,845
Others	112,680,814	20,684,300	12,851,407	146,216,521
	1,780,275,737	1,103,144,725	385,463,448	3,268,883,910
Commercial	67,280,224	5,049,680	16,172,845	88,502,749
Corporate	–	–	2,687,371	2,687,371
	₱1,847,555,961	₱1,108,194,405	₱404,323,664	₱3,360,074,030

Impairment assessment
The Bank recognizes impairment losses based on the results of its specific (individual) and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay the principal or the interest beyond a certain threshold. These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

Market Risk
The Bank recognizes market risk as the adverse impact on earnings or capital, either immediate or over time, arising from changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates, commodity prices and equity prices. Market risk arises through the Bank's trading and balance sheet activities. The primary categories of market risk for the Bank are:

i. Interest rate risk: arising from changes in prevailing interest rates and implied volatilities on interest rate options; and
ii. Foreign exchange (FX) rate risk: arising from changes in exchange rates or risk arising from adverse movements/mismatches in currencies.

The RMC is the overall risk oversight body. Management of market and liquidity risks is delegated to the ALCO. ALCO is responsible for the establishment of appropriate risk policies and limits, duly approved by the RMC; and execution of both strategic and tactical actions to maintain the exposure within the set tolerances and meet the risk and reward objectives of the Bank.

The Bank established the MRM to assist the BOD, RMC, ALCO in monitoring and managing the Bank's market risk exposures independently from the risk taking units. MRM also acts as business partners with Global Markets in the daily monitoring of its positions against approved risk measures. MRM's roles include the following:

- Ensure that the market and liquidity risk management objectives of the Bank are achieved through the development, implementation, maintenance and enhancement of a comprehensive risk management process that comprises of qualitative and quantitative methodologies to identify, measure, control and monitor, among others, the following:
    - Market risks, which covers the risk of loss of earnings arising from changes in interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities
    - Liquidity risks, which covers liquidity crisis, funding structure, fund raising policies and strategies, diversification of funding sources, gap analysis and management
- Provide support functions to the ALCO to facilitate informed strategic management decision making
- Provide consultative services and support functions to all relevant units within the Bank on matters pertaining to market and liquidity risks management and treasury operations
- Participate, in collaboration with other risk management units within the Bank on cross border risk management issues, to identify and mitigate various risks inherent in new Global Markets and core banking products prior to product introduction
- Provide revaluation prices of relevant Global Markets products transacted by various business units within the Bank
- Perform regular independent supervision of Global Markets operations

An Integrated Risk Management Framework is in place to provide a set of general principles to guide the Bank to identify, measure, control and monitor the various risks the Bank is undertaking as well as roles and responsibility in managing these risks. All market risk policies being issued are reviewed at least annually to ensure compliance with regulatory requirements and up to par with international best practices.

The Bank's traded market risk exposures are primarily from proprietary trading, client servicing and market making. Various risk measurement techniques are used by the Bank to monitor and manage market risk, such as Price-Value-of-a-Basis-Point (PV01), FX net open position (NOP), Value-at-Risk (VaR), Stop Loss, Earnings-at-Risk (EaR), Impact on Economic Value (IEV) and Stop loss limits. In addition, a variety of stress testing techniques are performed to complement the reporting to Management.

Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows. Interest rate risk exposure is identified, measured, monitored and controlled through thresholds limits and procedures set by the Management to protect total net interest income from changes in market interest rates.

Trading: PV01

PV01 measures the change in the value of the portfolio with 1 basis point increase in the yield curve and is applicable for the trading portfolio. Thresholds are set annually to re-assess the Bank's risk appetite and strategy. The PV01 is computed and reported daily to Global Markets and monthly to ALCO.

Shown in the table below is the Interest Rate Sensitivities (PV01) Report - By Portfolio as at December 31, 2017 and 2016 (amounts expressed in thousands).

	Rates Trading	
Desk	**2017**	2016
PHP	**(₱58,660)**	(₱38,533)
USD	**28.460**	7.955
Net	**(₱58,660)**	(₱38,533)

	Interest Rate Derivatives	
Desk	**2017**	2016
PHP	**₱55,094**	₱2,188
USD	**(0.500)**	0.149
Net	**₱55,094**	₱2,188

Non-Trading: PV01
PV01 measures the change in the value of the portfolio with 1 basis point increase in the yield curve and is applicable to the AFS portfolio.

Shown in the table below is the Interest Rate Sensitivities (PV01) Report of GM's Rates Banking Book Investments as at December 31, 2017 and 2016 (amounts expressed in thousands).

	Rates Banking	
Desk	**2017**	2016
PHP	**(₱1,620)**	(₱1,413)
USD	**(1,823)**	(550)
NET	**(₱3,443)**	(₱1,963)

Non-trading: EaR and IEV
The Bank emphasizes the importance of managing interest rate risk in the banking book as most of the balance sheet items of the Bank generate interest income and interest expense, which are indexed to interest rates. Volatility of earnings can pose a threat to the Bank's profitability while economic value provides a more comprehensive view of the potential long-term effects on the Bank's overall capital adequacy.

With this, the Bank utilizes EaR to measure the sensitivity of the Bank's Net Interest Income (NII) due to a 100 basis points (bps) change in the underlying interest rates over a period of one year. IEV, on the other hand, shows the sensitivity of economic value on the long term to a 100 bps change in the market yield curve.

EaR and IEV are calculated based on the repricing gaps, or the difference between the amounts of rate sensitive assets and the amounts of rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier than its interest rate sensitive liabilities, which may restrain the growth of its net income or result in a decline in net interest income.

The Bank monitors the exposure of financial assets and financial liabilities to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Bank's interest-related income and expenses. The EaR and IEV is computed and reported monthly to ALCO and bi-monthly to RMC.

The following tables provide additional information on the statistical impact on net income and equity as of December 31, 2017 and 2016 (amounts in thousands):

	December 31, 2017			
Currency	**PHP**		**US$**	
Changes in interest rates (in basis points)	**+100**	**-100**	**+100**	**-100**
Change in net income	**(₱190,423)**	**₱190,423**	**(₱143,939)**	**₱143,939**
Change in equity	**(306,039)**	**306,039**	**(89,007)**	**89,007**

	December 31, 2016			
Currency	PHP		US$	
Changes in interest rates (in basis points)	+100	-100	+100	-100
Change in net income	(₱218,595)	₱218,595	(₱102,025)	₱102,025
Change in equity	(157,930)	157,930	(10,242)	10,242

The impact on the Bank's equity represents impact on other comprehensive income and excludes the impact on transactions affecting the income statement.

The sensitivity in the statements of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at the reporting date. The sensitivity of equity is calculated by revaluing fixed-rate AFS investments at reporting date for the effects of the assumed changes in interest rates. The impact on the equity as stated above already excludes the impact on transactions affecting the income statement.

Foreign exchange rate risk

Foreign exchange (FX) rate risk is the risk that the Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position in a currency. Where the value of asset/inflow exposures in one currency is not equal to the value of liability/outflow exposures in that currency, it is described as an open position. It may be short (liabilities exceed assets) or long (assets exceed liabilities).

The Bank controls its FX exposures by transacting in permissible currencies. Management of FX risk is done via monitoring of FX NOP and PV01 for those FX positions in the trading book. If the level reaches the trigger point, action is required to bring back the level to within the normal range. FX risk is reviewed together with other risks to determine the Bank's overall risk profile.

Foreign currency-denominated liabilities generally consist of: (a) foreign currency-denominated deposits in the Bank's FCDU, (b) accounts maintained in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, and (c) foreign currency-denominated borrowings appearing in the regular books of the Bank.

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency-denominated liabilities held under the FCDU books.

The Bank has significant exposure to US$ monetary assets and liabilities as of December 31, 2017 and 2016.

The tables below summarize the reasonable possible movement of the currency rate against each significant foreign currency with all other variables held constant on the statements of income (US$ against PHP) (amounts in thousands).

Bankwide FX Position

	December 31, 2017	
Changes in foreign currency exchange rate	**+5.0%**	**-5.0%**
Effect on profit before tax (in thousands)	**(₱40,382)**	**₱40,382**

	December 31, 2016	
Changes in foreign currency exchange rate	+5.0%	-5.0%
Effect on profit before tax (in thousands)	(₱69,232)	₱69,232

Trading FX USD Position

	2017		2016	
	Spot	**Forwards**	Spot	Forwards
PV01	**(99.36)**	**138.81**	(188.44)	(99.44)

Liquidity Risk

Liquidity risk management overview

Liquidity risk is the risk that the Bank's financial condition or overall safety and soundness is adversely affected by an inability (or perceived inability) to meet its obligations and may result in the Bank incurring unacceptable losses. The Bank's obligations and the funding sources used to meet them, depend significantly on its business mix, its balance sheet structure and the cash flow profile of its on- and off-balance sheet obligations.

The Non-Trading Book Policy Statement, which includes policies on liquidity risk management, is reviewed annually and endorsed by ALCO and approved by RMC. The Bank's liquidity risk position is actively discussed and managed at the ALCO and RMC in line with the approved guidelines and policies.

The Bank, in line with the Group, has implemented leading practices as a foundation to manage and measure its liquidity risk exposure. The Bank uses a range of tools to monitor and control liquidity risk exposure such as liquidity gap, early warning signals/liquidity indicators and stress testing. The liquidity positions of the Bank are monitored regularly against the established policies, procedures and thresholds.

Management of liquidity risk
For day to day liquidity management, Global Markets will ensure sufficient funding to meet the Bank's intraday payment and settlement obligations on a timely basis. In addition, the process of managing liquidity risk includes:

- Maintaining an adequate portfolio that can easily be liquidated as protection against any unforeseen interruption in cashflows;
- Maintaining a stable funding to support illiquid assets and business activities;
- Daily and monthly monitoring of liquidity ratios against internal and regulatory requirements;
- Monthly monitoring of gaps arising from mismatched maturity of assets and liabilities;
- Monthly monitoring and managing of concentration ratios of deposits;
- Conducting monthly liquidity stress testing under various scenarios as part of prudent liquidity control;
- Maintaining a robust contingency funding plan that includes strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios; and
- Conducting Contingency Funding Plan (CFP) testing to examine the effectiveness and robustness of the plans.

Stress testing and Contingency Funding Plan
The Bank uses stress testing and scenario analysis to evaluate the impact of sudden stress events on liquidity position. Scenarios are based on hypothetical events that include bank specific crisis and general market crisis scenarios. The stress test result provides an insight of the Bank's funding requirements during different levels of stress environments and is closely linked to the Bank's CFP, which provides a systemic approach in handling any unexpected liquidity disruptions. The plan encompasses strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios.

The Bank also conducts CFP tests to ensure the effectiveness and operational feasibility of the CFP. The key aspects of the testing are to focus on the preparedness of key senior management and their respective alternate in handling a simulated distress funding situation. It also provides exposure and develops capabilities on how to respond to a liquidity crisis situation and operate effectively with each other under challenging circumstances.

Analysis of financial assets and financial liabilities by remaining contractual maturities
The tables below show the maturity profile of the Bank's financial assets and financial liabilities based on contractual undiscounted cash flows (amount in thousands).

	December 31, 2017					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash and other cash items	**₱1,810,596**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,810,596**
Due from BSP	**15,127,322**	**–**	**–**	**–**	**–**	**15,127,322**
Due from other banks	**2,889,498**	**–**	**–**	**–**	**–**	**2,889,498**
Interbank loans receivable and SPURA	**4,956,435**	**–**	**–**	**–**	**–**	**4,956,435**
Financial assets at FVPL:						
HFT investments:						
Government securities	**13**	**162**	**1,753**	**1,213,319**	**65,410**	**1,280,657**
Derivative assets	**43,754**	**12,803**	**3,332**	**132**	**4,989**	**65,010**
	43,767	**12,965**	**5,085**	**1,213,451**	**70,399**	**1,345,667**

(Forward)

	December 31, 2017					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 year**	**Total**
AFS investments:						
Government	**₱2,523**	**₱1,605**	**₱24,753**	**₱59,847**	**₱3,694,235**	**₱3,782,963**
Private debt securities	**1,902**	**3,351**	**30,603**	**54,909**	**2,629,986**	**2,720,751**
Quoted equity	–	–	–	–	**8,761**	**8,761**
Unquoted	–	–	–	–	**3,164**	**3,164**
HTM investments:						
Government	**2,465**	**64,079**	**39,683**	**50,017**	**1,229,713**	**1,385,957**
Private	–	**7,288**	**24,980**	**40,653**	**1,809,743**	**1,882,664**
Loans and receivables:						
Loans:						
Corporate	**4,715,603**	**4,366,725**	**1,794,451**	**991,935**	**18,901,396**	**30,770,110**
Commercial	**1,525,568**	**807,233**	**687,212**	**369,156**	**410,241**	**3,799,410**
Consumer:						
Auto loans	**77,086**	**123,426**	**330,021**	**1,351,116**	**49,020,451**	**50,902,100**
Housing loans	**1,184**	**1,079**	**831**	**13,974**	**13,595,283**	**13,612,351**
Others	**915,167**	**14,422**	**43,000**	**179,438**	**1,503,192**	**2,655,219**
	7,234,608	**5,312,885**	**2,855,515**	**2,905,619**	**83,430,563**	**101,739,190**
Sales contract receivable:						
Individual	–	**154**	**261**	**1,873**	**60,958**	**63,246**
Corporate	–	–	–	**1,962**	**1,511**	**3,473**
	–	**154**	**261**	**3,835**	**62,469**	**66,719**
Accounts receivable:						
Corporate	**151,917**	–	–	–	**587,434**	**739,351**
Individual	**190,943**	–	–	–	–	**190,943**
	342,860	–	–	–	**587,434**	**930,294**
Accrued interest receivable	**13,055**	**15,470**	**10,240**	**24,399**	**570,051**	**633,215**
RCOCI	**322**	–	–	–	–	**322**
	₱32,425,353	**₱5,417,797**	**₱2,991,120**	**₱4,352,730**	**₱94,096,518**	**₱139,283,518**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱22,913,313**	**₱–**	**₱–**	**₱–**	**₱–**	**₱22,913,313**
Savings	**19,271,637**	**1,327,633**	**94,450**	**179,387**	–	**20,873,107**
Time	**12,638,268**	**7,605,464**	**1,616,014**	**3,270,203**	**13,216,747**	**38,346,696**
	54,823,218	**8,933,097**	**1,710,464**	**3,449,590**	**13,216,747**	**82,133,116**
Financial liabilities at FVPL:						
Interest rate swaps	–	–	–	–	**30,320**	**30,320**
Forward contracts	**56,919**	**59,245**	–	–	–	**116,164**
Bills payable		**9,694,620**	–	–	–	**9,694,620**
Manager's checks	**869,818**	–	–	–	–	**869,818**
Accrued interest payable	**27,406**	**16,604**	**34,517**	**20,570**	**64,429**	**163,526**
Accounts payable	**409,348**	–	–	–	–	**409,348**
Subordinated Debt			**28,111**	**55,000**	**2,990,000**	**3,073,111**
Due to Treasurer of the Philippines	–	–	–	–	**15,081**	**15,081**
	56,186,709	**18,703,566**	**1,773,092**	**3,525,160**	**16,316,577**	**96,505,104**
Contingent liabilities	**1,476,939**	**409,309**	**317,902**	**313,165**	**90,811**	**2,608,126**
	₱57,663,648	**₱19,112,875**	**₱2,090,994**	**₱3,838,325**	**₱16,407,388**	**₱99,113,230**

	December 31, 2016					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial Assets						
Cash and other cash items	₱1,583,185	₱–	₱–	₱–	₱–	₱1,583,185
Due from BSP	14,426,767	–	–	–	–	14,426,767
Due from other banks	6,348,780	–	–	–	–	6,348,780
Interbank loans receivable and SPURA	2,958,465	–	–	–	–	2,958,465
Financial assets at FVPL:						
HFT investments:						
Government securities	464	928	1,392	191,966	242,660	437,410
Private debt securities	5,000	–	–	–	–	5,000
Derivative assets	32,290	26,424	1,498	236	–	60,448
	37,754	27,352	2,890	192,202	242,660	502,858

(Forward)

	December 31, 2016					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
AFS investments:						
Government	₱3,789	₱7,579	₱11,368	₱22,736	₱1,393,438	₱1,438,910
Private debt securities	116,347	12,693	19,040	230,564	1,284,019	1,662,663
Quoted equity	–	–	–	–	6,981	6,981
Unquoted	–	–	–	–	3,164	3,164
HTM investments:						
Government	8,453	76,906	25,009	50,019	1,347,185	1,507,572
Private	257,035	14,695	120,910	40,653	1,892,544	2,325,837
Loans and receivables:						
Loans:						
Corporate	3,089,812	3,455,778	2,390,760	445,099	50,046,257	59,427,706
Commercial	1,864,100	853,688	623,000	313,142	592,425	4,246,355
Consumer:						
Auto loans	55,473	93,076	248,615	1,128,790	37,139,195	38,665,149
Housing loans	2,525	986	4,070	16,850	11,383,516	11,407,947
Others	961,893	13,539	41,306	180,986	1,523,547	2,721,271
	5,973,803	4,417,067	3,307,751	2,084,867	100,684,940	116,468,428
Unquoted debt securities:						
Government	189,167	–	–	–	–	189,167
	189,167	–	–	–	–	189,167
Sales contract receivable:						
Individual	151	5	868	4,313	60,206	65,543
Corporate	–	–	–	–	6,891	6,891
	151	5	868	4,313	67,097	72,434
Accounts receivable:						
Corporate	264,274	–	–	–	576,406	840,680
Individual	62,054	–	–	–	–	62,054
	326,328	–	–	–	576,406	902,734
Accrued interest receivable	455,175	45,380	10,741	52,060	–	563,356
RCOCI	11,473	–	–	–	–	11,473
	₱32,696,672	₱4,601,677	₱3,498,577	₱2,677,414	₱107,498,434	₱150,972,774
Financial Liabilities						
Deposit liabilities:						
Demand	₱21,077,746	₱–	₱–	₱–	₱–	₱21,077,746
Savings	16,932,220	1,179,977	69,084	2,530	–	18,183,811
Time	13,376,298	7,504,787	1,505,244	5,579,346	10,786,787	38,752,462
	51,386,264	8,684,764	1,574,328	5,581,876	10,786,787	78,014,019
Financial liabilities at FVPL:						
Interest rate swaps	389	241	–	47	47,960	48,637
Forward contracts	26,261	9,417	–	343	–	36,021
Bills payable	3,878,927	1,103,769	–	–	–	4,982,696
Manager's checks	727,591	–	–	–	–	727,591
Accrued interest payable	38,331	18,285	5,436	11,263	27,309	100,624
Accounts payable	419,865	–	–	–	–	419,865
Due to Treasurer of the Philippines	–	–	–	–	13,411	13,411
	56,477,628	9,816,476	1,579,764	5,593,529	10,875,467	84,342,864
Contingent liabilities	200,036	797,066	134,536	1,229,867	67,983	2,429,488
	₱56,677,664	₱10,613,542	₱1,714,300	₱6,823,396	₱10,943,450	₱86,772,352

5. Fair Value Measurement

The following table provides the fair value hierarchy of the Bank's assets and liabilities measured at fair value and those for which fair values are required to be disclosed:

	2017				
		Fair Value			
	Carrying value	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
HFT investments:					
Government securities	**₱1,242,776,816**	**₱1,242,776,816**	**₱13,228,030**	**₱1,229,548,786**	**₱–**
Derivative assets	**65,009,362**	**65,009,362**	**–**	**65,009,362**	**–**
AFS investments:					
Government securities	**3,053,052,753**	**3,053,052,753**	**2,425,966,694**	**627,086,059**	**–**
Private debt securities	**2,112,172,933**	**2,112,172,933**	**2,112,172,933**	**–**	**–**
Quoted equity securities	**8,761,382**	**8,761,382**	**8,761,382**	**–**	**–**
	5,173,987,068	**5,173,987,068**	**4,546,901,009**	**627,086,059**	**–**
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	**1,296,223,510**	**1,342,629,868**	**1,342,629,868**	**–**	**–**
Private debt securities	**1,520,000,000**	**1,525,811,524**	**1,525,811,524**	**–**	**–**
	2,816,223,510	**2,868,441,392**	**2,868,441,392**	**–**	**–**
Loans and receivables					
Receivable from customers:			**–**	**–**	
Corporate lending	**23,381,072,957**	**23,472,491,921**	**–**	**–**	**23,472,491,921**
Commercial lending	**3,515,738,708**	**3,699,810,860**	**–**	**–**	**3,699,810,860**
Consumer lending	**43,050,475,213**	**53,760,041,308**	**–**	**–**	**53,760,041,308**
	69,947,286,878	**80,932,344,089**	**–**	**–**	**80,932,344,089**
Non-financial assets					
Investment properties	**1,286,794,298**	**1,773,708,326**	**–**	**–**	**1,773,708,326**
Total assets	**₱80,532,077,932**	**₱92,056,267,053**	**₱7,428,570,431**	**₱1,921,644,207**	**₱82,706,052,415**
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	**₱146,483,530**	**₱146,483,530**	**₱–**	**₱146,483,530**	**₱–**
Liabilities for which fair values are disclosed					
Financial liabilities					
Time deposits	**36,546,810,365**	**36,294,814,870**	**–**	**–**	**36,294,814,870**
Bills payable	**9,686,420,000**	**9,692,157,330**	**–**	**–**	**9,692,157,330**
Subordinated debt	**1,990,180,683**	**2,097,856,942**	**–**	**–**	**2,097,856,942**
Total liabilities	**₱48,369,894,578**	**₱48,231,312,672**	**₱–**	**₱146,483,530**	**₱48,084,829,142–**

	2016				
		Fair Value			
	Carrying value	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱406,189,189	₱406,189,189	₱406,096,798	₱92,391	₱–
Private debt securities	4,999,236	4,999,236	4,999,236	–	–
Derivative assets	60,448,286	60,448,286	–	60,448,286	–
AFS investments:					
Government securities	1,163,684,114	1,163,684,114	957,228,244	206,455,870	–
Private debt securities	1,338,273,984	1,338,273,984	1,338,273,984	–	–
Quoted equity securities	6,981,230	6,981,230	6,981,230	–	–
	2,508,939,328	2,508,939,328	2,302,483,458	206,455,870	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	1,326,643,987	1,412,852,011	1,412,852,011	–	–
Private debt securities	1,870,842,669	1,885,475,600	1,885,475,600	–	–
	3,197,486,656	3,298,327,611	3,298,327,611	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	22,292,012,962	22,453,454,021	–	–	22,453,454,021
Commercial lending	3,675,948,076	4,037,400,050	–	–	4,037,400,050
Consumer lending	35,167,213,949	43,008,826,889	–	–	43,008,826,889
	61,135,174,987	69,499,680,960	–	–	69,499,680,960
Non-financial assets					
Investment properties	916,914,461	1,116,107,963	–	–	1,116,107,963
Total assets	₱68,230,152,143	₱76,894,692,573	₱6,011,907,103	₱266,996,547	₱70,615,788,923
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱84,658,456	₱84,658,456	₱–	₱84,658,456	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Time deposits	37,217,732,132	37,248,436,472	–	–	37,248,436,472
Bills payable	4,975,977,600	4,980,920,764	–	–	4,980,920,764
Total liabilities	₱42,278,368,188	₱42,314,015,692	₱–	₱84,658,456	₱42,229,357,236

In 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are:

COCI, due from BSP and other banks and IBLR - The carrying amounts approximate fair values due to the short-term nature of these accounts. IBLR consist mostly of overnight deposits and floating rate placements.

Trading and investment securities - Fair values of debt securities (financial assets at FVPL and AFS investments) and equity investments are generally based on quoted market prices. Where the government debt securities are not quoted or the market prices are not readily available, the fair value is determined in reference to interpolated PDST-R2 rates provided by the Philippine Dealing and Exchange Corporation (PDEx). For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the lack of suitable methods of arriving at a reliable fair value.

Derivative instruments - Fair values of derivative instruments, mainly forward foreign exchange contracts, are valued using a valuation technique with market observable inputs. The most frequently applied valuation technique is forward pricing, which uses present value calculations. The model incorporates various inputs including the foreign exchange rates and interest rate curves prevailing at the reporting date.

Loans and receivables - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans and receivables.

Investment properties - The fair values of Bank's investment properties have been detrmined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued. Significant unobservable inputs in determining fair values include the following:

	Valuation Techniques	**Significant Unobservable Inputs**
Land	Market data approach	Price per square meter, size, location, shape, time element and corner influence
Land and building	Market data approach for building and condominium for sale/lease and cost approach method for land improvements	Reproduction cost new

<u>Significant Unobservable Inputs</u>

Reproduction cost new	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

Liabilities - The fair values of liabilities approximate their carrying amounts due to either the demand nature or the relatively short term maturities of these liabilities except for time deposit liabilities and bills payable whose fair values are estimated using the discounted cash flow methodology using the Bank's incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

6. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	2017	2016
Government securities	**₱1,242,776,816**	₱406,189,189
Private debt securities	–	4,999,236
Derivative assets (Note 17)	**65,009,362**	60,448,286
	₱1,307,786,178	₱471,636,711

As of December 31, 2017 and 2016, financial assets at FVPL include net unrealized gain of ₱51.1 million and ₱20.3 million, respectively.

7. Available-for-Sale Investments

This account consists of investments in:

	2017	2016
Debt instruments:		
Government securities (Note 13)	**₱3,053,052,753**	₱1,163,684,114
Private	**2,112,172,933**	1,338,273,984
	5,165,225,686	2,501,958,098
Equity:		
Quoted	**8,761,382**	6,981,230
Unquoted	**3,163,900**	3,163,900
	11,925,282	10,145,130
	₱5,177,150,968	₱2,512,103,228

The movements in net unrealized losses on AFS investments are as follows:

	2017	2016
Balance at the beginning of the year	**(₱11,757,110)**	(₱29,748,704)
Amounts realized in profit or loss (Note 22)	**(53,546,784)**	(52,771,220)
Changes in fair value recognized in equity	**(7,167,805)**	70,762,814
	(₱72,471,699)	(₱11,757,110)

8. Held-to-Maturity Investments

This account consists of investments in:

	2017	2016
Government securities (Note 27)	**₱1,296,223,510**	₱1,326,643,987
Private debt securities	**1,520,000,000**	1,870,842,669
	₱2,816,223,510	₱3,197,486,656

9. Loans and Receivables

This account consists of:

	2017	2016
Loans:		
Corporate (Note 29)	**₱23,820,904,929**	₱22,761,255,164
Commercial (Note 29)	**3,657,740,509**	4,069,973,460
Consumer:		
Auto loans	**34,068,204,583**	27,405,634,403
Housing loans	**7,710,553,362**	6,435,136,461
Others	**2,090,488,950**	2,181,767,207
	71,347,892,333	62,853,766,695
Less unearned discounts and other deferred income	**20,098,285**	22,969,231
	71,327,794,048	62,830,797,464
Unquoted debt securities:		
Government	**–**	189,167,130
Accounts receivable:		
Corporate (Note 29)	**774,655,224**	840,679,852
Individual	**155,639,320**	62,054,325
	930,294,544	902,734,177
Less unearned discounts and other deferred income	**1,975,961**	1,980,735
	928,318,583	900,753,442
Accrued interest receivable (Note 29)	**633,215,277**	563,355,541
Sales contract receivable:		
Individual	**63,245,941**	65,543,048
Corporate	**3,473,252**	6,891,266
	66,719,193	72,434,314
RCOCI	**322,390**	11,473,397
	72,956,369,490	64,567,981,288
Less allowance for credit losses	**1,535,065,741**	2,056,162,742
	₱71,421,303,749	₱62,511,818,546

Loans consist of:

	2017	2016
Loans and discounts	**₱68,336,975,697**	₱60,087,570,075
Customers' liabilities and other loans	**2,662,128,337**	2,278,699,085
Bills purchased (Note 16)	**176,112,421**	251,983,151
Restructured loans	**172,675,878**	235,514,384
	₱71,347,892,333	₱62,853,766,695

Movements in the allowance for credit losses follow:

	December 31, 2017								
	Corporate Loans	**Commercial Loans**	**Housing Loans**	**Auto Loans**	**Accounts Receivable**	**Sales Contract Receivable**	**Unquoted Debt Securities**	**Miscellaneous***	**Total**
Balances at beginning of year	**₱466,582,557**	**₱386,099,936**	**₱123,803,643**	**₱516,753,934**	**₱104,056,276**	**₱3,841,420**	**₱189,167,130**	**₱265,857,846**	**₱2,056,162,742**
Provision for (recovery from) impairment and credit losses	**(46,611,212)**	**(18,694,262)**	**(7,357,448)**	**161,331,607**	**(13,924,039)**	**2,132,267**	**–**	**254,993,842**	**331,870,755**
Accounts written off	**–**	**(233,100,288)**	**–**	**(118,748,039)**	**(9,725,245)**	**–**	**(189,167,130)**	**(302,227,054)**	**(852,967,756)**
Balances at end of year	**₱419,971,345**	**₱134,305,386**	**₱116,446,195**	**₱559,337,502**	**₱80,406,992**	**₱5,973,687**	**₱–**	**₱218,624,634**	**₱1,535,065,741**
Individual impairment	**221,040,420**	**31,676,895**	**–**	**–**	**–**	**–**	**–**	**–**	**252,717,315**
Collective impairment**	**198,930,925**	**102,628,491**	**116,446,195**	**559,337,502**	**80,406,992**	**5,973,687**	**–**	**218,624,634**	**1,282,348,426**
	₱419,971,345	**₱134,305,386**	**₱116,446,195**	**₱559,337,502**	**₱80,406,992**	**₱5,973,687**	**₱–**	**₱218,624,634**	**₱1,535,065,741**
Gross amount of loans and receivables individually determined to be impaired before deducting any individually assessed impairment allowance	**₱430,850,115**	**₱54,981,877**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱485,831,992**

	December 31, 2016								
	Corporate Loans	Commercial Loans	Housing Loans	Auto Loans	Accounts Receivable	Sales Contract Receivable	Unquoted Debt Securities	Miscellaneous*	Total
Balances at beginning of year	₱305,323,340	₱519,880,903	₱11,373,096	₱205,918,945	₱170,066,162	₱29,238,172	₱189,167,130	₱573,431,661	₱2,004,399,409
Provision for (recovery from) impairment and credit losses	520,674,561	(45,992,136)	112,430,547	411,114,940	(10,119,434)	(25,396,752)	–	275,939,221	1,238,650,947
Accounts written off	(359,415,344)	(87,788,831)	–	(100,279,951)	(55,890,452)	–	–	(583,513,036)	(1,186,887,614)
Balances at end of year	₱466,582,557	₱386,099,936	₱123,803,643	₱516,753,934	₱104,056,276	₱3,841,420	₱189,167,130	₱265,857,846	₱2,056,162,742
Individual impairment	171,726,131	243,164,330	–	–	–	–	189,167,130	–	604,057,591
Collective impairment	294,856,426	142,935,606	123,803,643	516,753,934	104,056,276	3,841,420	–	265,857,846	1,452,105,151
	₱466,582,557	₱386,099,936	₱123,803,643	₱516,753,934	₱104,056,276	₱3,841,420	₱189,167,130	₱265,857,846	₱2,056,162,742
Gross amount of loans and receivables individually determined to be impaired before deducting any individually assessed impairment allowance	₱698,082,139	₱266,966,848	₱–	₱–	₱–	₱–	₱189,167,130	₱–	₱1,154,216,117

**Allowance for credit losses - miscellaneous includes allowance for accrued interest receivable, consumer loan - others and miscellaneous receivables.*

***As discussed in Note 3, the Bank changed its estimation process related to collective impairment assessment for corporate, commercial and consumer loans in 2017.*

Interest income on loans and receivables consists of:

	2017	2016
Loans and discounts	**₱5,641,592,116**	₱4,960,546,367
Customers' liabilities and other loans	**114,686,753**	97,129,389
Accounts receivable - PPI (Note 29)	**31,027,945**	30,970,220
Restructured loans	**9,079,831**	13,273,427
Sales contract receivable	**3,692,230**	4,443,349
	₱5,800,078,875	₱5,106,362,752

Of the total peso-denominated loans of the Bank as of December 31, 2017 and 2016, 95.38% and 92.94%, respectively, are subject to periodic interest repricing. Remaining peso-denominated loans earned annual EIR ranging from 1.0% to 41.3% and from 2.5% to 41.1% for the years ended December 31, 2017 and 2016, respectively. All foreign currency-denominated loans of the Bank as of December 31, 2017 and 2016 are subject to periodic interest repricing and earned annual EIR ranging from 2.05% to 7.29% and from 2.19% to 6.68% for the years ended December 31, 2017 and 2016, respectively.

All sales contract receivable as of December 31, 2017 and 2016 are subject to periodic interest repricing.

Regulatory Reporting

BSP Circular No. 772 requires banks to compute their net nonperforming loans (NPLs) by deducting the specific allowance for credit losses on the total loan portfolio from the gross NPLs. The specific allowance for credit losses shall not be deducted from the total loan portfolio in computing the NPL ratio.

NPLs of the Bank as reported to the BSP follow:

	2017	2016
Gross NPLs	**₱1,505,097,676**	₱2,036,189,716
Less: Deductions as required by the BSP	**659,308,126**	939,626,095
Net NPLs	**₱845,789,550**	₱1,096,563,621

Under current BSP regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the loan shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance.

Restructured loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs.

As of December 31, 2017 and 2016, secured and unsecured NPLs of the Bank, as reported to the BSP follow:

	2017	2016
Secured	**₱805,508,739**	₱754,157,500
Unsecured	**699,588,937**	1,282,032,216
	₱1,505,097,676	₱2,036,189,716

The following table shows the breakdown of loans as to secured and unsecured and the breakdown of secured loans as to type of security (amounts in thousands):

	December 31, 2017		December 31, 2016	
	Amount	**%**	Amount	%
Secured by:				
Chattel	**₱31,260,654**	**43.81**	₱25,370,997	40.37
Real estate	**8,850,998**	**12.41**	7,532,770	11.98
Deposits hold-out	**364,220**	**0.51**	928,982	1.48
Others	**323,101**	**0.45**	–	–
	40,798,973	**57.18**	33,832,749	53.83
Unsecured	**30,548,919**	**42.82**	29,021,018	46.17
	₱71,347,892	**100.00**	₱62,853,767	100.00

Information on the concentration of credit as to industry on loans follows (amounts in thousands):

	December 31, 2017		December 31, 2016	
	Gross Amount	**%**	Gross Amount	%
Consumer	**₱34,790,436**	**48.76**	₱36,022,534	57.31
Real estate activities	**13,880,584**	**19.45**	6,314,206	10.05
Wholesale and retail trade	**6,279,022**	**8.8**	4,484,747	7.13
Electric, gas, steam and air-conditioning supply	**4,263,409**	**5.98**	3,907,889	6.22
Manufacturing	**2,504,855**	**3.51**	2,690,081	4.28
Transportation and storage,	**2,387,131**	**3.35**	585,395	0.93
Accomodation and food service activities	**1,860,580**	**2.61**	833,184	1.33
Financial and insurance activities	**1,754,846**	**2.46**	2,385,857	3.80
Other service activities	**1,017,481**	**1.43**	1,209,280	1.92
Agriculture, forestry and fishing	**900,792**	**1.26**	1,016,560	1.62
Construction	**856,696**	**1.20**	2,491,130	3.96
Mining and quarrying	**425,638**	**0.60**	547,260	0.87
Human health and social work activities	**252,068**	**0.35**	84,540	0.13
Education	**174,354**	**0.24**	250,106	0.40
Public administration and defense	**–**	**–**	30,998	0.05
	₱71,347,892	**100.00**	₱62,853,767	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio.

Receivable from Philmay Property, Incorporated (PPI)

As of December 31, 2017 and 2016, receivable from PPI (included under Accounts Receivable - Corporate) had a carrying value of ₱634.4 million and of ₱576.4 million, respectively. The receivable bears an interest rate based on one month PDST-R2 plus 1.00%, repriceable every month. Under the Memorandum of Agreement dated September 15, 2009 between the Bank and PPI, PPI undertakes to settle the receivable within 10 years beginning October 1, 2009 until September 30, 2019.

The receivable from PPI is secured by deposit hold-out agreement, executed by the Parent Company, amounting to US$20.0 million. In the event that PPI fails to perform its obligation under the Memorandum of Agreement, and that the same is not cured or corrected within a period of thirty (30) days from notice by the Bank, the Bank is authorized by the Parent Company to immediately offset and apply the deposit as partial or full payment of the obligation without need of demand.

10. Property and Equipment

The composition of and movements in this account follow:

	December 31, 2017			
	Condominium Units	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost				
Balances at beginning of year	**₱262,553,193**	**₱806,337,398**	**₱559,349,294**	**₱1,628,239,885**
Additions (Note 31)	**–**	**69,646,327**	**4,724,687**	**74,371,014**
Disposals/write-off	**–**	**(36,019,475)**	**(8,595,985)**	**(44,615,460)**
Balances at end of year	**262,553,193**	**839,964,250**	**555,477,996**	**1,657,995,439**
Accumulated Depreciation and Amortization				
Balances at beginning of year	**137,691,800**	**594,145,179**	**427,648,237**	**1,159,485,216**
Depreciation and amortization	**18,320,241**	**83,532,106**	**85,806,500**	**187,658,847**
Disposals/write-off	**–**	**(32,115,138)**	**(8,595,985)**	**(40,711,123)**
Balances at end of year	**156,012,041**	**645,562,147**	**504,858,752**	**1,306,432,940**
Net Book Value at end of year	**₱106,541,152**	**₱194,402,103**	**₱50,619,244**	**₱351,562,499**

	December 31, 2016			
	Condominium Units	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost				
Balances at beginning of year	₱262,553,193	₱781,875,569	₱542,779,065	₱1,587,207,827
Additions (Note 31)	–	56,318,363	16,570,229	72,888,592
Disposals/write-off	–	(31,856,534)	–	(31,856,534)
Balances at end of year	262,553,193	806,337,398	559,349,294	1,628,239,885
Accumulated Depreciation and Amortization				
Balances at beginning of year	121,089,889	540,690,960	346,306,620	1,008,087,469
Depreciation and amortization	16,601,911	80,426,764	81,341,617	178,370,292
Disposals/write-off	–	(26,972,545)	–	(26,972,545)
Balances at end of year	137,691,800	594,145,179	427,648,237	1,159,485,216
Net Book Value at end of year	₱124,861,393	₱212,192,219	₱131,701,057	₱468,754,669

Depreciation and amortization consist of:

	2017	2016
Property and equipment	**₱187,658,847**	₱178,370,292
Other properties acquired (Note 12)	**132,813,167**	112,910,529
Investment properties (Note 11)	**46,681,739**	24,166,278
Software costs (Note 12)	**34,445,512**	15,922,323
	₱401,599,265	₱331,369,422

As of December 31, 2017 and 2016, the cost of fully depreciated property and equipment still in use by the Bank amounted to ₱755.2 million and ₱609.6 million, respectively.

11. **Investment Properties**

The composition of and movements in this account follow:

	December 31, 2017		
	Land	**Building**	**Total**
Cost			
Balances at beginning of year	**₱641,207,475**	**₱377,379,198**	**₱1,018,586,673**
Additions (Note 31)	**52,293,836**	**436,156,474**	**488,450,310**
Disposals	**(38,445,200)**	**(48,447,497)**	**(86,892,697)**
Balances at end of year	**655,056,111**	**765,088,175**	**1,420,144,286**
Accumulated Depreciation			
Balances at beginning of year	**–**	**74,706,326**	**74,706,326**
Depreciation	**–**	**46,681,739**	**46,681,739**
Disposals	**–**	**(16,243,106)**	**(16,243,106)**
Balances at end of year	**–**	**105,144,959**	**105,144,959**
Accumulated Impairment Loss			
Balances at beginning of year	**20,570,478**	**6,395,408**	**26,965,886**
Provision (Reversals)	**1,506,291**	**(185,570)**	**1,320,721**
Disposals	**(15,098)**	**(66,480)**	**(81,578)**
Balances at end of year	**22,061,671**	**6,143,358**	**28,205,029**
Net Book Value at end of year	**₱632,994,440**	**₱653,799,858**	**₱1,286,794,298**

	December 31, 2016		
	Land	Building	Total
Cost			
Balances at beginning of year	₱243,693,166	₱236,902,814	₱480,595,980
Additions (Note 31)	442,904,573	168,581,373	611,485,946
Disposals	(45,390,264)	(28,104,989)	(73,495,253)
Balances at end of year	641,207,475	377,379,198	1,018,586,673
Accumulated Depreciation			
Balances at beginning of year	–	70,313,010	70,313,010
Depreciation	–	24,166,278	24,166,278
Disposals	–	(19,772,962)	(19,772,962)
Balances at end of year	–	74,706,326	74,706,326
Accumulated Impairment Loss			
Balances at beginning of year	16,313,676	4,611,857	20,925,533
Provision	12,548,658	2,017,710	14,566,368
Disposals	(8,291,856)	(234,159)	(8,526,015)
Balances at end of year	20,570,478	6,395,408	26,965,886
Net Book Value at end of year	₱620,636,997	₱296,277,464	₱916,914,461

Annually, management reviews the recoverable amount of investment properties. Several factors are considered such as real estate prices and physical condition of properties. The fair value of the investment properties as of December 31, 2017 and 2016 amounted to ₱1.8 billion and ₱1.1 billion, respectively, as determined by independent and/or in-house appraisers (see Note 5).

The Bank recognized rental income from investment properties, which are leased out under operating leases, amounting to ₱5.6 million for the years ended December 31, 2017 and 2016. Direct operating expenses, included in the 'Litigation and assets acquired expenses' in the statements of income arising from investment properties amounted to ₱93.7 million and ₱81.8 million for the years ended December 31, 2017 and 2016, respectively.

12. **Other Assets**

This account consists of:

	2017	2016
Chattel properties acquired	**₱340,097,397**	₱318,725,465
Software costs	**160,858,726**	109,819,203
Security deposits	**78,881,437**	78,881,437
Prepaid expenses	**42,924,514**	23,744,787
Documentary stamps	**39,001,179**	54,903,416
Prepaid interest	**7,994,458**	6,832,519
Sundry Debits	**2,611,299**	7,515,906
Miscellaneous	**28,808,327**	17,241,500
	₱701,177,337	₱617,664,233

Prepaid interest represents advance interest payments on certain time deposit product.

Allowance for impairment loss on certain other assets amounted to ₱4.7 million and ₱12.7 million as of December 31, 2017 and 2016, respectively.

Movements in chattel properties acquired follow:

	2017	2016
Cost		
Balances at beginning of year	**₱447,581,871**	₱430,852,571
Additions (Note 31)	**726,612,047**	615,754,142
Disposals	**(665,138,608)**	(599,024,842)
Balances at end of year	**509,055,310**	447,581,871
Accumulated Depreciation		
Balances at beginning of year	**128,856,406**	121,668,742
Depreciation	**132,813,167**	112,910,529
Disposals	**(92,843,035)**	(105,722,865)
Balances at end of year	**168,826,538**	128,856,406
Accumulated Impairment Loss		
Balances at beginning of year	–	9,225
Provision	**808,741**	67,775
Disposals	**(677,366)**	(77,000)
Balances at end of year	**131,375**	–
Net Book Value at end of year	**₱340,097,397**	₱318,725,465

Movements in software costs follow:

	2017	2016
Cost		
Balances at beginning of year	**₱201,602,550**	₱129,362,916
Additions	**85,485,035**	72,239,634
Balances at end of year	**287,087,585**	201,602,550
Accumulated Amortization		
Balances at beginning of year	**91,783,347**	75,861,024
Amortization	**34,445,512**	15,922,323
Balances at end of year	**126,228,859**	91,783,347
Net Book Value at end of year	**₱160,858,726**	₱109,819,203

As of December 31, 2017 and 2016, the cost of fully depreciated software still in use by the Bank amounted to ₱73.2 million and ₱56.9 million, respectively.

13. Deposit Liabilities

BSP Circular No. 753, which took effect April 6, 2012, promulgated the unification of the statutory/legal and liquidity reserve requirement effective on non-FCDU deposit liabilities from 8.00% to 6.00%. With the new regulations, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements. This was tantamount to the exclusion of government securities and cash in vault as eligible reserves. On April 11, 2014, BSP Circular 830 took effect, which increased the reserve requirements on non-FCDU deposit liabilities by 1-percentage-point to 7.00%. BSP Circular 832 further increased the reserve requirements of non-FCDU deposit liabilities to 20.00% starting on the reserve week of May 30, 2014.

The following assets have been considered as part of available reserves:

	2017	2016
Due from BSP	**₱15,127,322,201**	₱14,426,767,427
AFS investments	**127,024,110**	128,197,490
	₱15,254,346,311	₱14,554,964,917

Interest expense on deposit liabilities consists of:

	2017	2016
Time	**₱998,746,673**	₱787,885,269
Demand	**146,884,733**	137,211,150
Savings	**139,193,735**	120,124,783
	₱1,284,825,141	₱1,045,221,202

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 5.25% and from 0.25% to 5.50% for the years ended December 31, 2017 and 2016, respectively, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 2.60% and from 0.25% to 2.00% for the years ended December 31, 2017 and 2016, respectively.

14. Bills Payable

This account consists of borrowings from foreign banks including related parties (see Note 29) amounting to ₱9.7 billion and ₱5.0 billion as of December 31, 2017 and 2016, respectively. These are unsecured borrowings by the Bank.

Dollar-denominated borrowings are subject to annual EIR ranging from 0.85% to 3.00% and from 0.47% to 2.12% for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the terms of the borrowings range from 1 to 91 days.

Interest expense on bills payable and other borrowings consists of:

	2017	2016
Bills payable	**₱103,366,071**	₱64,489,273
Subordinated Debt (Note 29)	**27,069,573**	–
	₱130,435,644	₱64,489,273

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2017	2016
Accrued employee benefits	**₱348,589,867**	₱298,657,869
Accrued interest payable (Note 29)	**163,519,968**	100,624,306
Accrued rent	**157,573,527**	142,929,273
Accrued taxes and licenses	**37,265,662**	32,858,346
Accrued other expenses	**425,609,125**	325,610,637
	₱1,132,558,149	₱900,680,431

Accrued other expenses include accrual for various administrative expenses, professional fees and information technology expenses.

16. Other Liabilities

This account consists of:

	2017	2016
Accounts payable	**₱355,955,241**	₱419,865,259
Net pension liability (Note 21)	**364,763,166**	405,918,573
Other dormant credits	**140,367,381**	106,624,355
Bills purchased – contra	**119,944,925**	235,518,219
Withholding taxes payable (Note 32)	**54,991,888**	51,490,023
Due to the Treasurer of the Philippines	**15,080,881**	13,410,890
Other deferred credits	**7,451,595**	8,088,182
Miscellaneous	**15,459,451**	17,068,321
	₱1,074,014,528	₱1,257,983,822

17. Derivative Financial Instruments

As of December 31, 2017 and 2016, the Bank's derivative financial instruments represent interest rate swaps and currency forwards used by the Bank to manage exposures arising from changes in interest rates and foreign exchange rates.

The table sets out the information about the Bank's derivative financial instruments and the related fair values, together with the notional amounts:

	December 31, 2017			December 31, 2016		
	Notional Amount	**Derivative Asset**	**Derivative Liability**	Notional Amount	Derivative Asset	Derivative Liability
Interest rate swaps	**US$20,000,000**	**₱–**	**₱29,720,040**	US$20,000,000	₱–	₱47,378,930
	₱550,000,000	**4,988,599**	**599,651**	₱950,000,000	982,774	1,258,390
Forward contracts	**₱12,927,072,224**	**60,020,763**	**116,163,839**	₱5,790,940,331	59,465,512	36,021,136
		₱65,009,362	**₱146,483,530**		₱60,448,286	₱84,658,456

For foreign currency-denominated interest rate swaps, the Bank pays fixed semi-annual interests ranging from 3.73% to 5.95% for the years ended December 31, 2017 and 2016 and receives semi-annual interests based on 6-month London Interbank Offered Rate (LIBOR).

The movements in the Bank's derivative financial instruments follow:

	2017	2016
Derivative Assets		
Balance at beginning of year	**₱60,448,286**	₱50,378,688
Changes in fair value (Note 22)	**4,561,076**	10,069,598
Balance at end of year	**₱65,009,362**	₱60,448,286

	2017	2016
Derivative Liabilities		
Balance at beginning of year	**₱84,658,456**	₱97,264,629
Changes in fair value (Note 22)	**61,456,849**	(10,718,514)
Net addition (settlement)	**368,225**	(1,887,659)
Balance at end of year	**₱146,483,530**	₱84,658,456

18. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	December 31, 2017			December 31, 2016		
	Up to One Year	**Over One Year**	**Total**	Up to One Year	Over One Year	Total
Financial Assets						
Cash and other cash items	**₱1,810,596,016**	**₱–**	**₱1,810,596,016**	₱1,583,185,232	₱–	₱1,583,185,232
Due from BSP	**15,127,322,201**	**–**	**15,127,322,201**	14,426,767,427	–	14,426,767,427
Due from other banks	**2,889,498,085**	**–**	**2,889,498,085**	6,348,780,329	–	6,348,780,329
Interbank loans receivable and SPURA	**4,956,434,833**	**–**	**4,956,434,833**	2,958,465,090	–	2,958,465,090
Financial assets at FVPL:						
HFT investments:						
Government securities	**1,242,776,816**	**–**	**1,242,776,816**	406,189,189	–	406,189,189
Private debt securities	**–**	**–**	**–**	4,999,236	–	4,999,236
Derivative assets	**65,009,362**	**–**	**65,009,362**	60,448,286	–	60,448,286
	1,307,786,178	**–**	**1,307,786,178**	471,636,711	–	471,636,711

(Forward)

	December 31, 2017			December 31, 2016		
	Up to One Year	Over One Year	Total	Up to One Year	Over One Year	Total
AFS investments:						
Government debt securities	₱–	₱3,053,052,753	₱3,053,052,753	₱206,526,936	₱957,157,178	₱1,163,684,114
Private debt securities	–	2,112,172,933	2,112,172,933	109,983,192	1,228,290,792	1,338,273,984
Private equity securities:						
Quoted	–	8,761,382	8,761,382	–	6,981,230	6,981,230
Unquoted	–	3,163,900	3,163,900	–	3,163,900	3,163,900
	–	5,177,150,968	5,177,150,968	316,510,128	2,195,593,100	2,512,103,228
HTM investments:						
Government debt securities	81,856,880	1,214,366,630	1,296,223,510	60,026,205	1,266,617,782	1,326,643,987
Private debt securities	–	1,520,000,000	1,520,000,000	350,842,669	1,520,000,000	1,870,842,669
	81,856,880	2,734,366,630	2,816,223,510	410,868,874	2,786,617,782	3,197,486,656
Loans and receivables:						
Loans:						
Corporate	11,754,374,649	12,066,530,280	23,820,904,929	9,288,020,765	13,473,234,399	22,761,255,164
Commercial	3,380,944,186	276,796,323	3,657,740,509	3,616,997,018	452,976,442	4,069,973,460
Consumer:						
Auto loans	1,725,560,668	32,342,643,915	34,068,204,583	1,382,634,748	26,022,999,655	27,405,634,403
Housing	16,752,080	7,693,801,282	7,710,553,362	23,531,003	6,411,605,458	6,435,136,461
Others	1,118,030,146	972,458,804	2,090,488,950	1,165,686,387	1,016,080,820	2,181,767,207
	17,995,661,729	53,352,230,604	71,347,892,333	15,476,869,921	47,376,896,774	62,853,766,695
Unquoted debt instruments:						
Government	–	–	–	189,167,130	–	189,167,130
	–	–	–	189,167,130	–	189,167,130
Sales contract receivable:						
Corporate	777,485	62,468,456	63,245,941	–	6,891,266	6,891,266
Individual	1,961,908	1,511,344	3,473,252	5,336,764	60,206,284	65,543,048
	2,739,393	63,979,800	66,719,193	5,336,764	67,097,550	72,434,314
Accounts receivable:						
Corporate	187,220,888	587,434,336	774,655,224	264,273,462	576,406,390	840,679,852
Individual	155,639,320	–	155,639,320	62,054,325	–	62,054,325
	342,860,208	587,434,336	930,294,544	326,327,787	576,406,390	902,734,177
Accrued interest receivable	633,215,277	–	633,215,277	563,355,541	–	563,355,541
RCOCI	322,390	–	322,390	11,473,397	–	11,473,397
	18,974,798,997	54,003,644,740	72,978,443,737	16,572,530,540	48,020,400,714	64,592,931,254
	45,148,293,190	61,915,162,338	107,063,455,528	43,088,744,331	53,002,611,596	96,091,355,927
Nonfinancial Assets						
Property and equipment	–	351,562,499	351,562,499	–	468,754,669	468,754,669
Investment properties	–	1,314,999,327	1,314,999,327	–	943,880,347	943,880,347
Deferred tax assets	–	704,435,690	704,435,690	–	894,344,140	894,344,140
Other assets	121,339,775	584,628,683	705,968,458	110,238,128	520,155,302	630,393,430
	121,339,775	2,955,626,199	3,076,965,974	110,238,128	2,827,134,458	2,937,372,586
Less: Allowance for impairment and credit losses	–	–	1,568,061,892	–	–	2,095,857,825
Unearned discounts and other deferred income	–	–	22,074,246	–	–	24,949,966
Total Assets	₱45,269,632,965	₱64,870,788,537	₱108,550,285,364	₱43,198,982,459	₱55,829,746,054	₱96,907,920,722
Financial Liabilities						
Deposit liabilities:						
Demand	₱22,913,312,795	₱–	₱22,913,312,795	₱21,077,745,631	₱–	₱21,077,745,631
Savings	20,873,107,088	–	20,873,107,088	18,183,810,657	–	18,183,810,657
Time	25,015,009,730	11,531,800,635	36,546,810,365	27,826,065,535	9,391,666,597	37,217,732,132
	68,801,429,613	11,531,800,635	80,333,230,248	67,087,621,823	9,391,666,597	76,479,288,420
Financial liabilities at FVPL:						
Derivative liabilities	116,163,839	30,319,691	146,483,530	36,697,800	47,960,656	84,658,456
Bills payable	9,686,420,000	–	9,686,420,000	4,975,977,600	–	4,975,977,600
Manager's checks	869,817,972	–	869,817,972	727,590,994	–	727,590,994
Accrued interest payable	99,097,150	64,422,818	163,519,968	73,315,040	27,309,266	100,624,306
Outstanding acceptances	173,142,363	–	173,142,363	339,397,801	–	339,397,801
Accounts payable	355,955,241	–	355,955,241	419,865,259	–	419,865,259
Subordinated debt	–	1,990,180,683	1,990,180,683	–	–	–
Due to Treasurer of the Philippines	–	15,080,881	15,080,881	–	13,410,890	13,410,890
	11,300,596,565	2,100,004,073	13,400,600,638	6,572,844,494	88,680,812	6,661,525,306
Nonfinancial Liabilities						
Income tax payable	53,293,007	–	53,293,007	14,167,198	–	14,167,198
Accrued taxes and other expenses	969,038,181	–	969,038,181	800,056,125	–	800,056,125
Other liabilities	338,215,240	364,763,166	702,978,406	418,789,100	405,918,573	824,707,673
	1,360,546,428	364,763,166	1,725,309,594	1,233,012,423	405,918,573	1,638,930,996
Total Liabilities	₱81,462,572,606	₱13,996,567,874	₱95,459,140,480	₱74,893,478,740	₱9,886,265,982	₱84,779,744,722

19. **Capital Funds**

The Bank's capital stock as of December 31, 2017 and 2016 consists of:

Preferred stock -₱3.7 par value	
"A" - Authorized and issued - 1,200,000 shares	₱4,440,000
"B" - Authorized and issued - 2,400,000 shares	8,880,000
"C" - Authorized - 291,400,000 shares	
Issued - 59,208,574 shares	219,071,724
Subscribed - 1,602,500 shares - net of subscriptions receivable of ₱5,781,250	148,000
	232,539,724
Common stock - ₱35.0 par value	
Authorized - 473,366,128 shares	
Issued and outstanding - 294,661,846 shares	10,313,164,634
Subscribed shares - net of subscriptions receivable of ₱218,750	179,550
	10,313,344,184
	₱10,545,883,908

Preferred shares of stock are cumulative with a guaranteed quarterly dividend of 2.50%, nonparticipating, nonvoting and with preference in asset distribution and payable in full at par plus accumulated dividends in case of dissolution or liquidation. Dividends are declared at the discretion of the BOD.

Preferred Series "A" and "B" shares of stock are redeemable at the option of the Bank at par value plus unpaid accumulated dividends after 15 years from date of issue. Where the Bank exercises the option to redeem the shares, the holder will have an option to convert to new preferred shares or certificate of indebtedness in lieu of redemption. Preferred Series "B" shares of stock embraced in the increase in capitalization authorized under the resolution passed by stockholders on October 20, 1962, are redeemable after ten (10) years from date of issue and convertible, at the option of the holder, into voting common shares of stock in lieu of redemption. Both Preferred Series "A" and "B" shares of stock were issued on October 1, 1961.

Preferred Series "C" shares of stock have preference in payment of dividends over other preferred or common shares which have unpaid accumulated and accrued dividends, and are convertible into voting common stock at the option of the holder thereof, provided that such conversion be made only after 7-1/2 years from date of issue. Preferred Series "C" shares of stock were issued on September 14, 1974.

As of December 31, 2017 and 2016, dividends in arrears on cumulative preferred shares amounted to ₱1.0 billion and ₱1.0 billion, respectively.

Treasury shares consist of 5,130 common shares, 38,000 Preferred Series "A" shares of stock and 17,150 Preferred Series "B" shares of stock, which are carried at cost.

<u>Employee Stock Option Scheme (ESOS)</u>
Prior to August 25, 2009, all employees of the Bank are entitled to a grant of stock options from the Parent Company once they have been in service for two years. Options awarded to an employee that are made available immediately, with no vesting period, are expensed outright. Options which are exercisable based on the schedule in ESOS over a period of five years from the date of grant are expensed over the vesting period. The exercise price of the options is equal to

the weighted average market price of the shares subject to a discount within the limit allowed by the relevant authorities but shall, in no event, be less than the par value of the shares. The option has a maximum contractual life of five years and has no cash settlement alternatives. The stock option plan has expired on August 25, 2009.

The cost of the share-based payments arising from this stock option plan from the Parent Company was recognized as an equity-settled award in the Bank's financial statements and was recognized in equity.

Capital Management

The Bank manages its capital to ensure it complies with externally imposed capital requirements and maintains healthy capital ratios to support business growth and maximize shareholder value.

Regulatory Qualifying Capital

BSP, as the Bank's lead regulator, sets and monitors capital requirements. Under current banking regulations, the Bank's compliance with regulatory requirements and ratios is based on the "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects. Moreover, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than ten percent (10.00%). Qualifying capital and risk-weighted assets are computed based on BSP regulations. The Bank is also required to meet the minimum capital of ₱2.4 billion.

Effective January 1, 2014, the Bank complied with BSP Circular No. 781, Basel III *Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2017. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The BSP prescribes certain sanctions for non-compliance with the minimum capital requirements depending on the degree of capital deficiency incurred by the Bank such as suspension of authority to invest in allied undertakings, branching privileges and declaration of dividends, among others.

On June 27, 2014, the BSP issued Circular No. 839, REST Limit for Real Estate Exposures which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Bank should maintain CET1 and CAR levels at the regulatory prescribed minimums, on a solo and consolidated basis, even after the simulated results of a 25.00% write-off to the Bank's real estate exposures. These shall be complied with at all times.

The table below summarizes the (CAR) of the Bank as reported to the BSP as of December 31, 2017 and 2016 (amounts in millions):

	2017	2016
Tier 1 capital	**₱11,636**	₱10,446
Tier 2 capital	**2,736**	831
Total Qualifying Capital	**14,372**	11,277
Risk-Weighted Assets	**₱87,001**	₱78,822
Tier 1 capital ratio	**13.37%**	13.25%
Total capital ratio	**16.52%**	14.31%

The composition of the qualifying capital is shown below:

	2017	2016
Tier 1 capital	**₱12,716**	₱11,487
Less: Required deductions	**1,080**	1,041
Net Tier 1 capital	**11,636**	10,446
Total Tier 2 capital	**2,736**	831
Total qualifying capital	**₱14,372**	₱11,277

The capital requirements as of December 31, 2017 and 2016 are shown below:

Capital requirements:		
Credit risk	**₱78,050**	₱69,971
Market risk	**991**	1,728
Operational risk	**7,960**	7,123
Total capital requirements	**₱87,001**	₱78,822

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. Under Basel III, the regulatory Gross Qualifying Capital of the Bank consists of Tier 1 (core), composed of Common Equity Tier 1 and Additional Tier 1, and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred income tax and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated debts, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks and equity investments in subsidiary and non-financial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to the statements of financial position exposure and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

Below is a summary of risk weights and selected exposure types:

Risk weight	Exposure/Asset type*
0.00%	Cash on hand; claims collateralized by securities issued by the national government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20.00%	COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50.00%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75.00%	Direct loans of defined Small Medium Enterprise (SME) and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage
100.00%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred income tax)
150.00%	All nonperforming loans (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities

** Not all inclusive*

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For credit-linked notes and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

The risk-weighted CAR is calculated by dividing the sum of its Tier 1 and Tier 2 capital, as defined under BSP regulations, by its risk-weighted assets. The risk-weighted assets, as defined by the BSP regulations, consist of all of the assets on the balance sheet at their respective book values, together with certain other off-balance sheet items, weighted by certain percentages depending on the risks associated with the type of assets. The determination of compliance with regulatory requirements and ratios is based on the amount of the Bank's 'unimpaired capital' (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects.

As of December 31, 2017 and 2016, the Bank has complied with the CAR requirement of the BSP.

Internal Capital Adequacy Assessment Process (ICAAP)
In 2009, the BSP issued Circular No. 639 covering the ICAAP which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The Bank has a Board-approved ICAAP Framework with areas that cover Capital Management, Pillar 1 and Pillar 2 Risk Measurement, Minimum Internal Capital Requirement Calculation, Use of the ICAAP, Governance Structure, and Reporting Framework. The Bank complies with the required annual submission of updated ICAAP.

Surplus reserves of the Bank include reserve for trust business amounting to ₱20.9 million and ₱17.3 million as of December 31, 2017 and 2016, respectively. In compliance with existing BSP regulations, 10.00% of the net profits realized by the Bank from its trust business are appropriated to surplus reserve. The yearly appropriation is required until the surplus reserve for trust business equals 20.00% of the Bank's regulatory capital.

Financial Performance
The following basic ratios measure the financial performance of the Bank:

	2017	2016
Return on average equity	**8.00%**	2.90%
Return on average assets	**0.98%**	0.38%
Net interest margin	**4.97%**	5.05%

20. Interest Income on Financial Investments

This account consists of interest income on:

	2017	2016
Financial assets at FVPL	**₱46,957,372**	₱21,048,942
AFS investments	**181,669,667**	133,116,100
HTM investments	**147,719,494**	178,109,620
	₱376,346,533	₱332,274,662

Peso-denominated HFT investments bear nominal interest rates ranging from 2.13% to 8.00% and 2.13% to 3.63% for the years ended December 31, 2017 and 2016, respectively.
Peso-denominated AFS investments bear nominal interest rates ranging from 3.50% to 6.21% and from 3.50% to 6.38% for the years ended December 31, 2017 and 2016, respectively. Foreign currency-denominated AFS investments bear nominal interest rates ranging from 2.95% to 7.45% and from 3.18% to 7.38% for the years ended December 31, 2017 and 2016, respectively.

Peso-denominated HTM investments bear nominal interest rates ranging from 2.13% to 5.63% and from 2.12% to 7.00% for the years ended December 31, 2017 and 2016, respectively. Foreign currency-denominated HTM investments bear nominal interest rates ranging from 5.25% to 9.88% and from 5.25% to 9.88% for the years ended December 31, 2017 and 2016, respectively.

Interest income on AFS debt securities is net of amortization of net premium amounting to ₱5.9 million and ₱15.1 million for the years ended December 31, 2017 and 2016, respectively.

Interest income on HTM investments is net of amortization of net premium amounting to ₱34.0 million and ₱33.6 million for the years ended December 31, 2017 and 2016, respectively.

21. **Retirement Plan**

The Bank has a funded noncontributory defined benefit retirement plan (the Plan) covering substantially all of its officers and regular employees. Under the Plan, all covered officers and employees are entitled to cash benefits (equivalent to 120% and 110%, respectively, of the final monthly salary for every year of service) after satisfying certain age and service requirements. The Bank's retirement plan is in the form of a trust administered by the Bank's Trust Division under the supervision of the Staff Committee.

Under the existing regulatory framework, Republic Act 7641 requires companies with at least ten (10) employees to pay retirement benefits to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The net pension liability included in 'Other liabilities' in the statements of financial position is as follows:

	2017	2016
Present value of the defined benefit obligation	**₱564,892,020**	₱574,302,118
Fair value of plan assets	**(200,128,854)**	(168,383,545)
Net pension liability	**₱364,763,166**	₱405,918,573

Changes in the present value of the defined benefit obligation as of December 31, 2017 and 2016 recognized in the statements of financial position follow:

	2017	2016
Balance at beginning of year	**₱574,302,118**	₱509,211,254
Current service cost	**82,573,913**	81,400,000
Interest cost	**30,504,514**	25,000,000
Remeasurement loss (gain):		
Actuarial gain arising from changes in financial assumptions	**(12,622,141)**	(54,164,687)
Actuarial loss (gain) arising from changes in demographic assumptions	**6,300**	(5,348,687)
Actuarial loss (gain) arising from experience adjustment	**(35,466,673)**	76,672,686
Benefits paid	**(74,406,011)**	(58,468,448)
Balance at end of year	**₱564,892,020**	₱574,302,118

Changes in fair value of plan assets are as follows:

	2017	2016
Balance at beginning of year	**₱168,383,545**	₱122,352,235
Contributions	**100,965,574**	97,200,000
Interest income	**12,112,853**	9,200,000
Remeasurements	**(6,927,107)**	(1,900,242)
Benefits paid	**(74,406,011)**	(58,468,448)
Balance at end of year	**₱200,128,854**	₱168,383,545

The fair value of plan assets by each class is as follows:

	2017	2016
Cash and cash equivalents	**₱169,140,009**	₱142,249,431
Accrued interest and other receivables	**1,953,811**	1,179,122
Debt instruments		
Government securities	**172,621**	178,337
Private securities	**7,862,413**	3,494,655
Equity instruments		
Manufacturing	**17,000,000**	17,476,000
Wholesale and Retail	**4,000,000**	3,806,000
Fair value of plan assets	**₱200,128,854**	₱168,383,545

The Bank's plan assets are carried at fair value. All equity and debt instruments held have quoted prices in active market. The fair value of cash and cash equivalents, accrued interest and other receivables approximates its carrying amount due to the short-term nature of these accounts.

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. The portfolio mix of the Bank's plan assets as of December 31, 2017 and 2016 was approved by the Staff Committee.

The Bank expects to contribute ₱100.2 million to the plan in 2018.

The cost of defined benefit retirement plans as well as the present value of the benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used are shown below:

	2017	2016
Discount rate		
At January 1	**5.50%**	5.09%
At December 31	**5.74%**	5.50%
Future salary increase rate	**6.00%**	6.00%
Average remaining working life	**9**	9

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2017 and 2016, assuming all other assumptions were held constant.

	2017	2016
Increase in discount rate by 1%	**(₱48,023,465)**	(₱49,704,701)
Decrease in discount rate by 1%	**55,839,305**	57,913,757
Increase in salary increase rate by 1%	**59,210,992**	61,141,484
Decrease in salary increase rate by 1%	**(51,823,416)**	(53,419,935)

The amounts included in 'Compensation and fringe benefits' expense in the statements of income are as follows:

	2017	2016
Current service cost	**₱82,573,913**	₱81,400,000
Net interest cost	**18,391,661**	15,800,000
Expense recognized during the year	**₱100,965,574**	₱97,200,000

The Bank also has a defined contribution plan for certain employees. The pension expense recognized under this plan amounting to ₱24.7 million and ₱21.6 million for the years ended December 31, 2017 and 2016, respectively, is included in 'Compensation and fringe benefits' in the statements of income.

The average duration of the retirement liability is 17.3 years in 2017. Maturity analysis of the undiscounted benefit payments follow:

	Normal Retirement	Other than Normal Retirement	Total
Less than one year	₱8,072,411	₱28,756,597	₱36,829,008
More than one to five years	74,637,060	148,603,040	223,240,100
More than five to 10 years	123,805,404	230,630,576	354,435,980
More than 10 to 15 years	411,855,357	221,650,541	633,505,898
More than 15 to 20 years	593,523,341	159,613,226	753,136,567
More than 20 years	1,127,778,357	192,515,378	1,320,293,735

22. **Net Trading Gains**

This account consists of:

	2017	2016
Financial instruments at FVPL:		
HFT investments (Note 6)	**₱34,427,828**	₱28,994,566
Derivatives (Note 17)	**(56,895,773)**	20,788,112
AFS investments (Note 7)	**53,546,784**	52,771,220
	₱31,078,839	₱102,553,898

23. **Service Charges, Fees and Commissions**

This account consists of:

	2017	2016
Credit-related (Note 29)	**₱563,467,007**	₱466,890,858
Deposit-related	**79,569,036**	90,860,240
Others	**16,164,168**	14,479,923
	₱659,200,211	₱572,231,021

24. **Miscellaneous Income and Expense**

Miscellaneous income consists of:

	2017	2016
Recovery on written-off accounts	**₱110,438,257**	₱37,935,790
Trust fees (Note 29)	**35,565,716**	35,423,870
Others	**89,466,536**	67,756,186
	₱235,470,509	₱141,115,846

Others include miscellaneous income from penalties, inspection and appraisal and processing fees on charged off assets and rental income.

Miscellaneous expense consists of:

	2017	2016
Information and technology	**₱118,046,622**	₱90,177,760
Outsourced services	**109,530,476**	119,306,824
Litigation and assets acquired	**93,677,790**	81,782,630
Provision for operating losses	**74,782,287**	–
Cards-related expenses	**63,314,985**	51,198,293
Commissions and service charges	**56,758,133**	54,581,593
Management and other professional fees	**53,233,905**	13,156,198
Fines and penalties	**44,063,814**	34,557,211
Traveling	**40,669,981**	49,691,164
Stationery and supplies used	**37,126,630**	38,806,298
Postage, telephone and telegrams	**36,804,618**	71,637,707
Advertising and publications	**29,734,356**	9,756,377
Banking fees	**27,399,184**	25,293,626
Membership fees and dues	**24,783,316**	22,245,882
Freight	**18,868,325**	20,617,133
Repairs and maintenance	**16,076,809**	16,798,107
Entertainment, amusement and recreation	**5,208,094**	19,380,618
Minor tools and equipment	**4,100,689**	5,450,864
Philippine Clearing House Corporation fees	**2,779,473**	4,117,727
Fuel and lubricants	**2,031,934**	1,921,771
Others	**21,339,392**	33,206,884
	₱880,330,813	₱763,684,667

Cards-related expenses include costs relating to cards acquiring business of the Bank, settlement expenses and credit investigation expenses.

Others include periodicals, various office supplies, registration fee for various seminars, donations and charitable contribution.

25. Long-term Leases

The Bank leases the premises occupied by its head office and branches for periods ranging from 4 to 5 years and are renewable upon mutual agreement of both parties under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rent expense charged against current operations (included under 'Occupancy' in the statements of income) amounted to ₱230.9 million and ₱230.7 million for the years ended December 31, 2017 and 2016, respectively.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2017	2016
Within one year	**₱171,389,740**	₱184,108,234
After one year but not more than five years	**437,485,891**	576,860,076
More than five years	**1,667,831,374**	1,662,913,913
	₱2,276,707,005	₱2,423,882,223

26. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of documentary stamp tax and gross receipts tax (GRT).

Income taxes include corporate income taxes and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00%, which represents final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits, are presented as 'Provision for income tax' in the statements of income.

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 30.00%. Interest expense allowed as a deductible expenses shall be reduced by 33.00% of interest income subject to final tax.

The MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception.

The Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 4-2011 on March 15, 2011 which sets out the rules on the allocation of costs and expenses between the RBU and FCDU. The rules mainly provide that the costs and expenses should be allocated using specific identification of expenses to a particular unit and by allocation of common expenses based on percentage share of gross income earnings of a unit to the total gross income earnings subject to RCIT and final tax including those exempt from income tax.

Provision for income tax consists of:

	2017	2016
Current:		
MCIT	**₱–**	₱79,310,273
RCIT	**225,998,601**	2,647,385
Final	**73,125,030**	86,702,361
	299,123,631	168,660,019
Deferred	**177,561,828**	(124,261,451)
	₱476,685,459	₱44,398,568

The details of net deferred tax assets follow:

	2017	2016
Deferred tax asset on:		
Allowance for impairment and credit losses	**₱469,003,127**	₱624,938,588
Provisions and accruals	**228,193,272**	189,060,209
Retirement liability and unamortized past service cost	**134,014,498**	130,895,643
Accumulated depreciation on investment and chattel properties	**82,208,965**	61,068,819
Fair value loss on financial assets	**21,669,750**	30,978,134
Fair value gain on HFT investments	**20,719,165**	4,211,302
Excess MCIT over RCIT	**–**	29,921,400
	955,808,777	1,071,074,095
Deferred tax liability on:		
Fair value of investment properties and chattel properties	**₱93,984,681**	94,049,782
Unrealized profit on assets sold	**79,573,254**	₱82,680,173
Unrealized foreign exchange gain	**77,815,152**	–
	251,373,087	176,729,955
	₱704,435,690	₱894,344,140

Provision for (benefit from) deferred income tax recognized directly against OCI for the years ended December 31, 2017 and 2016 amounted to ₱12.3 million and (₱5.7 million), respectively.

As of December 31, 2017 and 2016, the Bank did not recognize deferred tax assets on certain allowance for impairment and credit losses amounting to ₱1.3 million and ₱12.7 million, respectively, since the management believes that it is not probable that the related tax benefits will be realized in the future.

Reconciliation between the statutory income tax rate and the effective income tax rate follows:

	2017	2016
Statutory income tax rate	**30.00%**	30.00%
Tax effects of:		
Nondeductible expenses	**8.05**	15.47
FCDU income before income tax	**(3.35)**	(2.69)
Tax-exempt income and income subjected to final tax	**(2.45)**	(6.71)
Movements in unrecognized deferred tax assets	**(0.16)**	(24.72)
Effective income tax rate	**32.09%**	11.35%

27. Trust Operations

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Bank (Note 28).

In connection with the trust business of the Bank, government securities (under 'HTM investments') with total face value ₱82.0 million and ₱80.0 million as of December 31, 2017 and 2016 are deposited with the BSP in compliance with the requirements of the General Banking Law.

28. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are outstanding commitments and other contingent liabilities which are not reflected in the accompanying financial statements. The Bank does not anticipate material losses from these commitments and contingent liabilities.

Regulatory Reporting
The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2017	2016
Forward exchange sold	**₱12,880,283,367**	₱5,739,084,016
Forward exchange bought	**12,819,859,999**	5,766,135,611
Trust department accounts (Note 27)	**5,547,625,535**	8,152,447,960
Unused commercial letters of credit	**2,608,124,804**	2,429,486,661
Broker customer securities account	**1,886,390,240**	678,673,407
Interest rate swap payable	**1,548,600,000**	1,944,400,000
Interest rate swap receivable	**1,548,600,000**	1,944,400,000
Spot exchange bought	**877,264,535**	149,255,000
Spot exchange sold	**877,182,261**	149,325,000
Export letters of credit-confirmed	**829,417,837**	773,891,800
Deficiency claims receivable	**488,057,531**	442,441,106
Inward bills for collection	**340,124,621**	1,590,605,716
Outstanding guarantees	**151,292,502**	246,343,327
Late deposits and payments received	**14,246,028**	28,941,775
Outward bills for collection	**871,216**	80,323,743
Items held for safekeeping	**25,335**	22,120
Items held as collateral	**17,447**	7,375

29. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subject to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with Retirement Plan

The retirement fund of the Bank's employees with fair value amounting to ₱200.1 million and ₱168.4 million as of December 31, 2017 and 2016, respectively, is being managed by the Bank's Trust Department. The transaction was made substantially on the same terms as with other individuals and businesses of comparable risks. Other than deposits with the Bank and trust fees, there were no other material transactions between the retirement fund and the Bank in 2017 and 2016. Deposits with the Bank amounted to ₱61.3 million and to ₱23.2 million as of December 31, 2017 and 2016, respectively. The Bank earned ₱1.7 million and ₱1.6 million of trust fees for the years ended December 31, 2017 and 2016, respectively.

Refer to Note 21 for the details of the assets and investments of the retirement fund. The retirement fund of the Bank does not have investments in the shares of stock of the Bank.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Executive Committee to constitute key management personnel for purposes of PAS 24.

Compensation of key management personnel included under 'Compensation and fringe benefits' in the statements of income follows:

	2017	2016
Salaries and other short-term benefits	**₱126,261,472**	₱124,305,127
Post-employment benefits	**27,026,365**	20,682,920
	₱153,287,837	₱144,988,047

Regulatory Reporting

In the ordinary course of business, the Bank enters into loans and other transactions with its affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks and are settled in cash.

The amount of individual loans to DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15.00% of the total loan portfolio. As of December 31, 2017 and 2016, the Bank is in compliance with these regulatory requirements.

BSP Circular No. 423, dated March 15, 2004, amended the definition of DOSRI accounts. Further, the BSP issued BSP Circular No. 464, dated January 4, 2005, clarifying the definition of stockholders.

The following table shows information relating to DOSRI loans of the Bank:

	2017	2016
Total outstanding DOSRI loans (in thousands)	**₱778,607**	₱651,759
Percent of DOSRI loans granted prior to effectivity of BSP Circular No. 423 to total loans	**0.45%**	0.26%
Percent of DOSRI loans granted after effectivity of BSP Circular No. 423 to total loans	**0.85%**	0.78%
Percent of DOSRI loans to total loans	**1.06%**	1.04%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of past due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of nonperforming DOSRI loans to total DOSRI loans	**0.00%**	0.00%

Total outstanding DOSRI loans include portion of loans covered by hold-outs on deposit and which are excluded in determining compliance with the aggregate ceiling.

Section X327 of the Manual of Regulations for Banks (MORB) states that transactions covered for loans to be classified as loans to DOSRI, shall refer to transactions of the Bank which involve the grant of any loan, advance or other credit accommodation in any form whatsoever, whether renewal, extension or increase. Thus, a non-DOSRI loan which, during its term, becomes subject to an event that results to any of the positions/relationships enumerated under Section X326.1 of the MORB shall remain a non-DOSRI loan unless the same is renewed, extended or increased at any time.

Total interest income on the DOSRI loans and receivable amounted to ₱56.26 million and ₱51.74 million for the years ended December 31, 2017 and 2016, respectively, including accretion of interest from AR-PPI amounting to ₱31.0 million and ₱31.0 million in 2017 and 2016, respectively.

For the years ended December 31, 2017 and 2016, interest rates on DOSRI loans ranged from 2.17% to 4.50%.

Other Related Party Transactions

Other related party transactions entered in the normal course of business were primarily regular banking transactions. The Bank settles its related party transactions in cash. The significant year-end account balances with respect to related parties included in the financial statements follow:

	Outstanding Balance /Volume		
	2017	2016	**Nature, Terms and Conditions**
Parent Company			
Due from other banks	**₱25,183,374**	₱22,567,499	Foreign currency demand deposit accounts, non-interest bearing and no impairment
Deposits	**475,362,215**	122,509,600	
Withdrawals	**472,746,340**	119,086,793	
Accounts receivable	**147,840**	147,840	Receivables for various administrative expenses, due on demand, non-interest bearing, unsecured and no impairment
Advances	**30,899,517**	21,076,252	
Repayments	**30,899,517**	21,146,535	

(Forward)

	Outstanding Balance /Volume		
	2017	2016	**Nature, Terms and Conditions**
Interest income	**₱26,879,337**	₱20,826,167	Interest income from interbank loans receivable, interest rate swaps and due from other banks
Bills payable	**9,686,420,000**	2,589,417,600	Short-term foreign currency borrowings subject to annual fixed interest rate ranging from 0.15% to 2.12% with maturity terms from 5 to 186 days, unsecured
Net availments	**7,097,002,400**	138,532,800	
Financial liabilities at FVPL	**61,585,564**	25,908,433	Interest rate swaps where the Bank pays fixed semi-annual interest of 8.38% and receives semi-annual interests based on 6-month LIBOR, unsecured with a maturity of 110 months
Accrued interest payable	**4,058,200**	4,207,156	Accrued interest expense on bills payable and interest rate swaps
Subordinated Debt	**1,990,180,683**	–	Direct, unconditional, unsecured and subordinated obligation of the Bank
Interest expense	**147,724,103**	83,888,647	Interest expense on interest rate swaps, bills payable, subordinated debt and deposit liabilities
Other related parties			
Due from other banks	**57,015,541**	27,036,187	Various foreign currency demand deposit accounts, non-interest bearing and no impairment
Deposits	**31,228,141,136**	23,146,690,258	
Withdrawals	**31,198,161,782**	23,128,933,864	
Loans and receivables	**54,500,000**	24,500,000	Revolving credit line with maturity of two years bearing 4.50% interest rate, fully secured by hold-out deposits amounting to US$20 million and no impairment
Availments	**54,500,000**	32,107,523	
Settlements	**24,500,000**	30,807,523	
Interbank loans receivable	–	–	Foreign currency lending which earn annual fixed interest rate of 0.60% with maturity terms ranging from 1 to 361 days, unsecured and no impairment
Availments	**200,000,000**	–	
Settlements	**200,000,000**	10,223,314	
Accounts receivable	**639,083,078**	578,492,990	Receivable subject to interest rate based on one-month PDST-R2 plus 1%, with a maturity of 10 years secured by deposit hold-out and no impairment. Also includes various administrative expenses
Advances	**74,145,082**	64,718,256	
Repayments	**13,554,994**	80,109,579	
Accrued interest receivable	**2,365,057**	21,227,721	Accrued interest income on accounts receivable
Interest income	**96,205,461**	115,446,607	Net interest income from interbank loans receivable, loans and receivables, interest rate swaps and due from other banks
Bills payable	–	2,386,560,000	Short-term foreign currency borrowings subject to annual fixed interest rates ranging from 0.15% to 2.12% with maturity terms from 5 to 186 days
Net settlements	**(2,386,560,000)**	(1,095,880,000)	
Financial liabilities at FVPL	**73,227,840**	21,470,497	Interest rate swaps where the Bank pays fixed semi-annual interest ranging from 8.00% to 9.88% and receives semi-annual interests based on 6-month LIBOR, unsecured with a maturity of 74 to 105 months.
Accrued interest payable	**22,461,565**	26,901,229	Accrued interest expense on bills payable and interest rate swaps

(Forward)

	Outstanding Balance /Volume 2017	2016	Nature, Terms and Conditions
Interest expense	**₱73,233,047**	₱121,827,554	Interest expense on interest rate swaps, bills payable and deposit liabilities
Service charges, fees and commissions	**11,558,469**	17,264,762	Transaction fees from various services rendered
Retirement fund of the Bank			
Deposit with the Bank	**61,346,481**	23,242,484	This deposit earns annual fixed interest rates ranging from 0.25% to 3.25%.
Interest income	**1,804,447**	826,139	

Deposit liabilities to Parent Company amounted to ₱2.2 billion and ₱2.2 billion as of December 31, 2017 and 2016, respectively. Deposit liabilities to other related parties amounted to ₱1.4 billion and ₱426.9 million as of December 31, 2017 and 2016, respectively.

Other related parties are other companies owned and controlled by the Bank's Parent Company.

In 2016, Maybank International Labuan Branch (MILB) entered into syndicated term loan facility agreements with Philippine clients. The Bank acted as the arranger for this loan facility on behalf of MILB. The services provided by the Bank to MILB include, but not limited to, the conduct of the necessary due diligence for the loan application and provide the appropriate recommendation. The Bank received a total of ₱8.1 million (US$157,057) of fees from MILB, as consideration for arranging the loan for the year ended December 31, 2016.

On December 15, 2010, the Bank entered into an agreement with Maybank International Labuan Limited (MILL) whereby the Bank shall perform account management in its favor. This will include the conduct of annual review on the account and collection. The Bank shall charge MILL a service fee of 0.30% of the average US$ value of loans and investments booked by MILL per annum beginning July 1, 2010 until such time that the agreement shall be terminated. Service fees earned from MILL amounted to ₱11.2 million and ₱9.1 million for the years ended December 31, 2017 and 2016, respectively.

On December 18, 2016, the Bank entered into a Bancassurance Agreement with Asianlife & General Assurance Corporation (ALGA) (an entity under the common control of the Parent Company) for a period of ten (10) years. Under the Bancassurance Agreement, the Bank shall receive service fees and commissions for acting as ALGA's distribution channel for its insurance products. In 2017 and 2016, the Bank earned service fees and commissions amounting to ₱0.6 million and ₱0.4 million, respectively.

On October 3, 2017, the Bank and the Parent Company entered into a subordinated loan agreement (the Agreement) whereby the Parent Company agreed to make a subordinated loan available to the Bank in the aggregate amount of ₱2.0 billion. The term of the subordinated loan shall be 10 years from October 4, 2017, the drawdown date.

Among the significant terms and conditions of the agreement are:

(a) The subordinated loan shall constitute direct, unconditional, unsecured and subordinated obligation of the Bank. In the event of winding up or liquidation of the Bank, the claims of the Parent Company against the Bank will be subordinated in right of payment to the claims of the depositors and all other unsubordinated creditors of the Bank and will rank at least pari passu in right of payment with all other subordinated obligations, present and future, of the Bank. However, claims in respect of the subordinated loan will rank in priority to the rights and claims of holders of subordinated liabilities which by their terms rank or expressed to rank in right of payment junior to the subordinated loan and all classes of equity securities of the Bank, including holders of common shares and preferred shares.

(b) The Parent Company shall not be entitled to set off any amount it owes to the Bank against the subordinated loan.

(c) The Bank has option to prepay, in full or in part, the subordinated loan on any call date provided that at least thirty (30) business days before the call date, a notice in writing shall be delivered to the Parent Company. Any such notice given by the Bank shall be irrevocable. On the call date, the Bank shall pay to the Parent Company the principal amount to be prepaid plus any accrued interest. Any prepayment shall be subject to the approval of the BSP.

(d) The interest payable on the principal amount of the subordinated loan shall be at the initial interest rate, which is the sum of the initial spread and the initial benchmark rate, which is 5.5%. The Bank shall pay accrued interest on the outstanding subordinated loan every six (6) months and the first payment shall be six (6) months after the drawdown date.

(e) The subordinated loan has a loss absorbency feature at the point of non-viability. As such, the subordinated loan can absorb losses upon the occurrence of a trigger event through a write-off mechanism. A non-viability trigger event is a deviation from a certain level of Common Equity Tier 1 Ratio, inability of the bank to continue business, or any other event as may be determined by the BSP, whichever comes earlier.

In 2017, interest expense on subordinated loans included in 'Interest expense on bills payable and other borrowings' amounted to ₱27.1 million.

30. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables (amounts in thousands):

Financial Assets

December 31, 2017						
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure**
	[a]	[b]	[c] [a-b]	[d]		[e] [c-d]
Derivative assets (Note 17)	**₱65,009**	**₱–**	**₱65,009**	**₱–**	**₱–**	**₱65,009**
Interbank loans receivable and SPURA	**4,956,435**	–	**4,956,435**	–	**4,956,435**	–
Total	**₱5,021,444**	**₱–**	**₱5,021,444**	**₱–**	**₱4,956,435**	**₱65,009**

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	December 31, 2016					
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Note 17)	₱60,448	₱–	₱60,448	₱–	₱–	₱60,448
Interbank loans receivable and SPURA	2,958,465	–	2,958,465	–	2,958,465	–
Total	₱3,018,913	₱–	₱3,018,913	₱–	₱2,958,465	₱60,448

Financial Liabilities

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	December 31, 2017					
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities (Note 17)	**₱146,484**	**₱–**	**₱146,484**	**₱–**	**₱–**	**₱146,484**
Total	**₱146,484**	**₱–**	**₱146,484**	**₱–**	**₱–**	**₱146,484**

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial Instruments	Fair value of financial collateral	Net exposure [c-d]
	December 31, 2016					
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 17)	₱84,658	₱–	₱84,658	₱–	₱–	₱84,658
Total	₱84,658	₱–	₱84,658	₱–	₱–	₱84,658

31. Notes to Statements of Cash Flows

Additions to property and equipment still unpaid as of December 31, 2017 and 2016 amounted to ₱6.1 million and ₱2.6 million, respectively.

Non-cash additions to investment properties and other properties acquired in settlement of loans amounted to ₱488.5 million and ₱726.6 million, and ₱611.5 million and ₱615.8 million, respectively, for the years ended December 31, 2017 and 2016, respectively.

Changes in liabilities arising from financing activities

	January 1, 2017	**Cash flows**	**Changes on fair values**	**Others**	**December 31, 2017**
Liabilities from financing activities					
Bills payable	**₱4,975,977,600**	**₱4,710,442,400**	**₱–**	**₱–**	**₱9,686,420,000**
Subordinated Debt	**–**	**1,990,180,683**	**–**	**–**	**1,990,180,683**
	₱4,975,977,600	**₱6,700,623,083**	**₱–**	**₱–**	**₱11,676,600,683**

32. Supplementary Information Required Under Revenue Regulations 15-2010

The BIR issued RR 15-2010, to amend certain provisions of RR 21-2002. The Regulation provides that the notes to the financial statements will include information on taxes and licenses paid or accrued during the taxable year.

To comply with the requirements set forth in RR 15-2010, the Bank reported and/or paid the following types of taxes during the period:

Gross receipts tax (GRT) and Documentary stamp tax (DST)
Under the Philippine tax laws, financial institutions are subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid by the Bank consist principally of GRT and DST.

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and Licenses' account in the Bank's statements of income.

For the year ended December 31, 2017, GRT, DST and other taxes and licenses consist of the following:

Gross receipts tax	₱382,820,371
Documentary stamp tax	184,224,872
License and permit fees	17,324,680
Real estate taxes	2,362,704
Registration fees	38,500
	₱586,771,127

Withholding Taxes
Details of withholding taxes for the year ended December 31, 2017 are as follows:

	Total Amount Remitted	Balance as at December 31
Withholding taxes on compensation and benefits	₱299,139,283	₱16,640,194
Expanded withholding taxes	301,374,597	20,786,608
Final withholding taxes	156,583,961	17,565,086
Final withholding VAT	4,188,267	–
	₱761,286,108	₱54,991,888

Tax Assessments and Cases
The Bank has no outstanding assessments from the BIR as of December 31, 2017.