Maybank Philippines, Incorporated

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

7409

COMPANY NAME

MAYBANK PHILIPPINES, INCORPORATED

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

Maybank Corporate Centre, 7th Avenue corner 28th Street, Bonifacio Global City, Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
		December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ma. Caroline B. Santillan	cbsantillan@maybank.com.ph	739-1760	

CONTACT PERSON's ADDRESS

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Maybank Philippines, Incorporated
Maybank Corporate Centre
7th Avenue corner 28th Street
Bonifacio Global City
Taguig City

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, 2018 and 2017, 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, 2018 and 2017, 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.

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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.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, valid until September 17, 2021
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332523, January 3, 2019, Makati City

April 16, 2019

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, 2018 and 2017, 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.

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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.

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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 31 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.

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Maybank Corporate Centre
7th Avenue corner 28th Street
Bonifacio Global City
Taguig City

We have audited the financial statements of Maybank Philippines, Incorporated (the Bank) as at and for the year ended December 31, 2018 on which we have rendered the attached report dated April 16, 2019.

In compliance with Securities Regulation Code Rule 68, we are stating that the Bank has nineteen (19) stockholders owning one hundred (100) or more common shares each.

SYCIP GORRES VELAYO & CO.

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Maybank Philippines, Incorporated
Maybank Corporate Centre
7th Avenue corner 28th Street
Bonifacio Global City
Taguig City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Maybank Philippines, Incorporated (the Bank) as at and for the years ended December 31, 2018 and 2017 and have issued our report thereon dated April 16, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all the effective standards under Philippines Financial Reporting Standards is the responsibility of the Bank's management. This schedule is presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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PTR No. 7332523, January 3, 2019, Makati City

April 16, 2019

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Cash and Other Cash Items	**₱1,685,366,097**	₱1,810,596,016
Due from Bangko Sentral ng Pilipinas (Note 13)	**13,670,378,655**	15,127,322,201
Due from Other Banks (Note 28)	**13,090,490,156**	2,889,498,085
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 28)	**–**	4,956,434,833
Financial Assets at Fair Value Through Profit or Loss (Note 6)	**613,495,866**	1,307,786,178
Financial Assets at Fair Value Through Other Comprehensive Income (Notes 7 and 13)	**4,289,577,357**	–
Investment Securities at Amortized Cost (Note 8)	**12,300,290,249**	–
Available-for-Sale Investments (Notes 7 and 13)	**–**	5,177,150,968
Held-to-Maturity Investments (Notes 8 and 27)	**–**	2,816,223,510
Loans and Receivables (Notes 9 and 29)	**76,379,381,182**	71,421,303,749
Property and Equipment (Note 10)	**287,270,381**	351,562,499
Investment Properties (Note 11)	**1,338,292,042**	1,286,794,298
Deferred Tax Assets (Note 26)	**913,480,037**	704,435,690
Other Assets (Note 12)	**827,844,756**	701,177,337
TOTAL ASSETS	**₱125,395,866,778**	₱108,550,285,364
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 13 and 28)		
Demand	**₱19,973,207,626**	₱22,913,312,795
Savings	**21,437,661,176**	20,873,107,088
Time	**44,361,105,002**	36,546,810,365
	85,771,973,804	80,333,230,248
Bills Payable (Notes 14 and 28)	**20,685,920,000**	9,686,420,000
Subordinated Debt (Note 28)	**1,990,956,784**	1,990,180,683
Accrued Interest, Taxes and Other Expenses (Note 15)	**1,393,553,023**	1,132,558,149
Financial Liabilities at Fair Value through Profit or Loss (Notes 17 and 28)	**619,298,849**	146,483,530
Manager's Checks	**544,534,813**	869,817,972
Outstanding Acceptances	**106,945,606**	173,142,363
Income Tax Payable	**–**	53,293,007
Other Liabilities (Note 16)	**1,088,268,448**	1,074,014,528
	112,201,451,327	95,459,140,480
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)	**53,680,606**	49,428,986
Surplus	**2,485,589,166**	2,395,635,576
Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income/Available-for-Sale Investments (Note 7)	**(159,841,465)**	(72,471,699)
Remeasurement Gains (Losses) on Retirement Plan (Note 20)	**7,516,987**	(87,955,567)
Cumulative Translation Adjustment	**(791,864)**	(1,754,433)
Treasury Shares (Note 19)	**(383,605)**	(383,605)
	13,194,415,451	13,091,144,884
TOTAL LIABILITIES AND EQUITY	**₱125,395,866,778**	₱108,550,285,364

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017
INTEREST INCOME ON		
Loans and receivables (Notes 9 and 20)	**₱6,562,514,449**	₱5,800,078,875
Financial investments (Notes 6, 7 and 8))	**552,916,505**	376,346,533
Interbank loans receivable and securities purchased under resale agreements (Note 28)	**103,815,121**	91,109,442
Due from Bangko Sentral ng Pilipinas and other banks (Note 28)	**7,225,200**	42,639,168
	7,226,471,275	6,310,174,018
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 28)	**1,778,503,887**	1,284,825,141
Bills payable and other borrowings (Notes 14 and 28)	**482,939,010**	130,435,644
Financial liabilities at fair value through profit or loss (Notes 17 and 28)	**17,195,260**	26,029,720
	2,278,638,157	1,441,290,505
NET INTEREST INCOME	**4,947,833,118**	4,868,883,513
OTHER INCOME AND CHARGES		
Service charges, fees and commissions (Notes 22 and 28)	**743,304,331**	659,200,211
Loss on foreclosures	**(37,470,714)**	(44,014,371)
Foreign exchange gains (losses) – net	**(6,822,967)**	112,702,007
Net trading gains (losses) (Note 21)	**(94,185,428)**	31,078,839
Gain (loss) on sale of properties	**17,041,259**	(11,607,779)
Miscellaneous (Note 23)	**267,544,582**	235,470,509
TOTAL OPERATING INCOME	**5,837,244,181**	5,851,712,929
OTHER EXPENSES AND CHARGES		
Compensation and fringe benefits (Notes 20 and 28)	**1,637,578,455**	1,570,698,774
Taxes and licenses	**804,385,680**	586,771,127
Provision for impairment and credit losses (Notes 9, 11 and 12)	**754,857,346**	334,000,217
Depreciation and amortization (Notes 10, 11 and 12)	**363,880,256**	401,599,265
Occupancy (Note 25)	**301,205,122**	279,191,533
Insurance	**210,433,395**	167,597,522
Security, messengerial and janitorial	**148,814,647**	146,189,904
Litigation and asset acquired	**88,724,311**	93,677,790
Traveling	**50,662,601**	40,669,981
Postage, telephone and telegrams	**38,669,061**	36,804,618
Stationery and supplies used	**37,232,151**	37,126,630
Management and other professional fees	**29,164,920**	53,233,905
Repairs and maintenance	**20,224,948**	16,076,809
Entertainment, amusement and recreation	**5,438,181**	5,208,094
Miscellaneous (Note 24)	**653,785,665**	597,532,986
TOTAL OPERATING EXPENSES	**5,145,056,739**	4,366,379,155
INCOME BEFORE INCOME TAX	**692,187,442**	1,485,333,774
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)	**(43,026,984)**	476,685,459
NET INCOME	**₱735,214,426**	₱1,008,648,315

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
NET INCOME	**₱735,214,426**	₱1,008,648,315
OTHER COMPREHENSIVE INCOME (LOSS)		
***Items that may be reclassified to profit or loss in subsequent periods*:**		
Net change in unrealized gain (loss) on financial assets at fair value through other comprehensive income	**(154,320,305)**	–
Net change in unrealized gain (loss) on available-for-sale investments (Note 7)	–	(60,714,589)
Cumulative translation adjustment	**962,569**	(13,773,627)
Item that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gain on retirement plan (Note 20)	**136,389,363**	41,155,407
Tax effect	**(40,916,809)**	(12,346,622)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(57,885,182)**	(45,679,431)
TOTAL COMPREHENSIVE INCOME	**₱677,329,244**	₱962,968,884

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED

STATEMENTS OF CHANGES IN EQUITY

	Preferred Stock (Note 19)			**Common Stock** (Note 19)	**Cost of Share-Based Payment** (Note 19)	**Surplus Reserve** (Note 19)		**Cumulative Translation Adjustment**	**Remeasurement Losses on Retirement Plan**	**Net Unrealized Gain (Loss) on Available-for-Sale Investments** (Note 7)	**Treasury Shares** (Note 19)	
	"A"	**"B"**	**"C"**				**Surplus**					**Total**
Balances at January 1, 2018, as previously presented	**₱4,440,000**	**₱8,880,000**	**₱219,219,724**	**₱10,313,344,184**	**₱262,761,718**	**₱49,428,986**	**₱2,395,635,575**	**(₱1,754,433)**	**(₱87,955,567)**	**(₱72,471,699)**	**(₱383,605)**	**₱13,091,144,883**
Effects of adoption of PFRS 9, Financial Instruments (Note 2)	**–**	**–**	**–**	**–**	**–**	**–**	**(641,009,215)**	**–**	**–**	**66,950,539**	**–**	**(574,058,676)**
Balances at January 1, 2018, as restated	**4,440,000**	**8,880,000**	**219,219,724**	**10,313,344,184**	**262,761,718**	**49,428,986**	**1,754,626,360**	**(1,754,433)**	**(87,955,567)**	**(5,521,160)**	**(383,605)**	**12,517,086,207**
Net income	–	–	–	–	–	–	**735,214,426**	–	–	–	–	**735,214,426**
Other comprehensive income (loss)	–	–	–	–	–	–	–	**962,569**	**95,472,554**	**(154,320,305)**	–	**(57,885,182)**
Total comprehensive income (loss)	–	–	–	–	–	–	**735,214,426**	**962,569**	**95,472,554**	**(154,320,305)**	–	**677,329,244**
Transfer to surplus reserve	–	–	–	–	–	**4,251,620**	**(4,251,620)**	–	–	–	–	–
Balances at December 31, 2018	**₱4,440,000**	**₱8,880,000**	**₱219,219,724**	**₱10,313,344,184**	**₱262,761,718**	**₱53,680,606**	**₱2,485,589,166**	**(₱791,864)**	**₱7,516,987**	**(₱159,841,465)**	**(₱383,605)**	**₱13,194,415,451**
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	–	–	–	–	1,008,648,314
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)	–	962,968,883
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	₱2,395,635,575	(₱1,754,433)	(₱87,955,567)	(₱72,471,699)	(₱383,605)	₱13,091,144,883

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱692,187,442**	₱1,485,333,774
Adjustments for:		
Provision for impairment and credit losses (Notes 9,11 and 12)	**754,857,346**	334,000,217
Depreciation and amortization (Notes 10, 11 and 12)	**363,880,256**	401,599,265
Reversal of impairment losses	**(3,845,846)**	–
Retirement expense (Note 17)	**100,207,918**	100,965,574
Unrealized gain (loss)	**69,646,913**	–
Amortization of premium (discount)	**(98,726,631)**	39,946,756
Realized trading loss on sale of available-for-sale investments (Note 21)	**(25,212,935)**	(53,546,784)
Net loss (gain) on sale of:		
Investment properties and other properties acquired	**37,475,215**	11,512,809
Property and equipment	**(4,500)**	94,970
Loss (gain) on foreclosure of investment properties and other properties acquired	**(17,041,259)**	44,014,371
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables	**(7,079,871,528)**	(10,468,741,756)
Financial assets at fair value through profit or loss	**585,965,343**	(835,781,243)
Other assets	**(103,353,087)**	(11,101,650)
Increase (decrease) in the amounts of:		
Deposit liabilities	**5,438,743,556**	3,853,941,828
Financial liabilities at fair value through profit or loss	**472,815,319**	61,456,850
Outstanding acceptances	**(66,196,757)**	(166,255,438)
Accrued interest, taxes and other expenses	**260,994,874**	231,877,718
Manager's checks	**(325,283,159)**	142,226,978
Other liabilities	**150,643,282**	(146,318,330)
Net cash provided by (used in) operations	**1,207,881,762**	(4,974,774,091)
Retirement contribution (Note 17)	**(100,207,918)**	(100,965,574)
Income taxes paid	**(260,227,179)**	(259,997,822)
Net cash provided by (used in) operating activities	**847,446,665**	(5,335,737,487)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Financial assets at FVOCI	**(3,388,000,000)**	–
Available-for-sale investments	–	(8,035,332,153)
Financial assets at amortized cost	**(9,485,878,325)**	–
Held-to-maturity investments	–	(251,663,863)
Property and equipment (Notes 10 and 31)	**(79,902,712)**	(70,866,570)
Software costs (Note 12)	**(57,110,257)**	(85,485,035)
Proceeds from:		
Sale of financial assets at FVOCI	**4,182,084,749**	–
Sale of available-for-sale investments	–	5,357,214,134
Maturities of financial assets at amortized cost	**82,000,000**	–
Maturities of held-to-maturity investments	–	598,882,727
Disposals of property and equipment (Note 10)	**7,671,227**	3,809,367
Sale of investment properties (Note 11)	**98,706,845**	20,426,778
Disposals of other properties acquired (Note 12)	**454,903,012**	578,555,703
Net cash provided by (used in) investing activities	**(8,185,525,461)**	(1,884,458,912)

(Forward)

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (settlements) of bills payable	**₱10,999,500,000**	₱4,710,442,400
Proceeds from subordinated debt	**–**	1,990,180,683
Net cash provided by (used in) financing activities	**10,999,500,035**	6,700,623,083
CUMULATIVE TRANSLATION ADJUSTMENT	**962,569**	(13,773,627)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,662,383,773**	(533,346,943)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**1,810,596,016**	1,583,185,232
Due from Bangko Sentral ng Pilipinas (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 securities purchased under resale agreements (SPURA) (Note 30)	**4,956,434,833**	2,958,465,090
	24,783,851,135	25,317,198,078
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**1,685,366,097**	1,810,596,016
Due from BSP	**13,670,378,655**	15,127,322,201
Due from other banks	**13,090,490,156**	2,889,498,085
Interbank loans receivable and SPURA (Note 30)	**–**	4,956,434,833
	₱28,446,234,908	₱24,783,851,135

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	2018	2017
Interest received	**₱7,102,544,112**	₱6,240,314,282
Interest paid	**2,077,552,735**	1,378,394,843

See accompanying 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 branches as of December 31, 2018 and 2017, 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 April 16, 2019.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial instruments at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI) 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, 2018. Adoption of these pronouncements did not have a significant impact on the Bank's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

- PFRS 9, *Financial Instruments*

  Effective January 1, 2018, PFRS 9 replaces PAS 39, *Financial Instruments*: *Recognition and Measurement.* PFRS 9 also supersedes all earlier versions of the standard, thereby bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

  PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Bank did not restate prior period comparative financial statements when the Bank adopted the requirement of the new standard. Restatements and differences in the carrying amounts of the financial instruments arising from the adoption of PFRS 9 have been recognized in the 2018 opening balances of surplus and equity as if the Bank had always applied PFRS 9.

  The Bank adopted the classification and measurement, impairment and hedge accounting requirements of the standard as follows:

  Classification and measurement

  Financial assets are measured at FVPL unless these are measured at fair value through OCI (FVOCI) or at amortized cost. The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as financial assets at FVPL. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured as financial assets at FVPL. Subsequent measurement of instruments classified as financial assets at FVPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

  For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as financial assets at FVOCI for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as financial assets at amortized cost. Subsequent measurement of instruments classified as financial assets at FVOCI and at amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

  For those debt financial assets that would otherwise be classified as financial assets at FVOCI or at amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument as financial asset at FVPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVPL unless an irrevocable designation is made to classify the instrument, which is not held for trading, as financial asset at FVOCI for equities. Unlike AFS for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The effect of adopting the new classification and measurement rules for financial assets under PFRS 9 is discussed in the transition disclosures below.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss. This did not have impact on the Bank since FVTPL distribution is limited to derivative contracts.

Impairment
The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVPL.

Incurred Loss versus Expected Credit Loss Methodology
The application of ECL significantly changed the Bank's credit loss methodology and models. ECL allowances 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. ECL allowances are measured at amounts equal to either (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

Measurement of ECL
There are three main components to measure ECL which are a probability of default model ("PD"), a loss given default model ("LGD") and the exposure at default ("EAD"). The model is to leverage as much as possible to the Bank's existing models and perform the required adjustments to produce a formal PFRS 9 complaint model.

PFRS 9 does not distinguish between individual assessment and collective The information about the ECL on the Bank's receivables is disclosed in Note 9. Therefore, the Bank has decided to continue measuring the impairment mainly on an individual transaction basis for financial assets that are deemed to be individually, and collectively assess of other financial assets per Bank's policy.

Transition to PFRS 9

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as at January 1, 2018 is presented below. The Bank's adoption of PFRS 9 has no impact on its financial liabilities (in millions).

		PAS 39		Re-classification	Remeasurement	Others*	PFRS 9	
		Category	**Amount**		**ECL**		**Amount**	**Category**
Financial Assets								
Cash and other cash items		L&R	1,811	–	–	–	1,811	AC
Due from BSP		L&R	15,127	–	–	–	15,127	AC
Due from other banks	G	L&R	2,889	–	3	–	2,886	AC
IBLR		L&R	4,956	–	–	–	4,956	AC
Loans and advances to customers	H	L&R	71,421	–	*625*	–	70,796	AC
Debt instruments at AC				6,811	*13*	*45*	6,828	AC
From: Financial investments- AFS	A		–	*3,995*	–	–	*4,040*	
From: Financial investments- HTM	B		–	*2,816*	–	–	*2,816*	
		L&R	**96,204**	**6,811**	**641**	**45**	**102,404**	
Financial investments- AFS		AFS	5,177	(5,177)	–	–	–	
To: Debt instruments at AC	A		–	(3,995)	–	–		
To: Debt instruments at FVOCI	C		–	(1,169)	–	–		
To: Equity instruments at FVOCI	D		–	*(12)*	–	–		
		AFS	5,177	**(5,177)**	–	–	–	
Financial investments- HTM		HTM	2,816	(2,816)	–	–	–	
To: Debt instruments at AC	B		–	*(2,816)*	–	–		
		HTM	**2,816**	(2,816)	–	–	–	
Equity instruments at FVOCI			–	12	–	12	24	FVOCI
From: Financial investments- AFS	D		–	*12*	–	–		
				12	–	–	24	FVOCI
Debt instruments at FVOCI			–	1,185	*(6)*	–	1,179	FVOCI
From: Financial investments- AFS	C		–	*1,185*	–	–		
				1,185	*(6)*	–	1,179	FVOCI
Derivative financial instruments		FVPL	65	(65)	–	–	–	FVPL
To: Financial assets at FVPL	E		–	*(65)*				
Financial assets held to trading			1,243	65	–	–	1,308	
From: Derivative financial instruments			–	65				
			1,308				1,308	
Non-financial assets								
Deferred tax assets	F		704	–	–	–	704	
Total assets			106,209		(635)	45	105,619	

The following explains how applying the new classification requirements of PFRS 9 led to changes in classification of certain financial assets of the Bank on January 1, 2018:

A. As of January 1, 2018, the Bank assessed certain debt instruments previously classified as AFS debt instruments are managed to collect contractual cash flows. Accordingly, the Bank has classified these investments as debt instruments at amortized cost. As of January 1, 2018, the Bank did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of this instruments as debt instruments measured at amortized cost.

B. As of January 1, 2018, the Bank did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of this instruments as debt instruments at amortized cost.

C. As of January 1, 2018, the Bank assessed its liquidity portfolio which had been previously classified as AFS debt instruments. The Bank concluded that, apart from the small portion, as described in the section D below, these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Bank has classified these investments as debt instruments measured at FVOCI.

D. The Bank has elected the option to irrevocably designate its previous AFS equity instruments as equity instruments at FVOCI.

The summary of impact on reclassification and remeasurement under PFRS 9 as of January 1, 2018 follows:

	Surplus	Net unrealized loss on Investment Securities at FVOCI/ AFS Investments	Total
a. Reversal of net unrealized losses	₱–	₱60,439,363	₱60,439,363
b. Recognition of ECL on debt instruments at AC	(13,224,879)	–	(13,224,879)
c. Recognition of ECL on debt instruments at FVOCI	–	(5,708,524)	(5,708,524)
d. Recognition of net unrealized gain for unquoted equity securities	–	12,219,700	12,219,700
e. Recogniton of ECL on loans and advances	(624,871,449)	–	(624,871,449)
f. Recognition of ECL on due from other banks	(2,912,887)	–	(2,912,887)
Total change in equity due to adopting PFRS 9	(₱641,009,215)	₱66,950,539	(₱574,058,676)

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 supersedes PAS 11, Construction Contracts, PAS 18, Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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. In addition, guidance on interest and dividend income have been moved from PAS 18 to PFRS 9 without significant changes to the requirements. The adoption of PFRS 15 has no significant impact to the Bank.

The standard affects the Bank's credit card business as it requires that where a contract has more than one performance obligation, the transaction price must be allocated to all the performance obligations. PFRS 15 requires the Bank to allocate a portion of the consideration received from interchange fees from credit cards to the reward points based on the estimated standalone selling prices. The amount allocated to the reward points is deferred, and is recognized as revenue when the points are redeemed or the likelihood of the customer redeeming the points becomes remote. Under PAS 18, *Revenue,* a proportion of the revenue that corresponds to the total value of the reward points is determined by applying statistical analysis of historical data. The fair value of the points is deferred and recorded under 'Deferred revenue' and recognized as revenue when the points are redeemed or the likelihood of the customer redeeming the points becomes remote.

The Bank adopted PFRS 15 using a modified retrospective approach with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Bank elected to apply the standard to all contracts that are not completed as of January 1, 2018.

The Bank has already applied IFRIC 13, *Customer Loyalty Programmes,* and related interpretations to its credit card transactions in the previous years. The Bank concluded that under PFRS 15 the loyalty points give rise to a separate performance obligations because they provide a material right to the customer and a portion of the transaction price was allocated . The Bank determined that, considering the relative stand-alone selling prices, the amount allocated to loyalty points did not have material impact compared to the previous accounting policy. Therefore, upon adoption of PFRS 15, there were no adjustments recognized as at January 1 and December 31, 2018.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle*)

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

- Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration

Significant Accounting Policies

<u>Foreign Currency Translation</u>

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 Banker's Association of the Philippines (BAP) 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.

<u>Fair Value Measurement</u>
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.

<u>Cash and Cash Equivalents</u>
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.

Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement (Beginning January 1, 2018)

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 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 FVOCI 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.

Initial recognition and classification 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 FVTPL, financial assets at amortized cost, financial assets classified under FVOCI. The classification and measurement of financial instruments is driven by the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flow. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios.

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.

SPPI test
As a second step of its classification process, The Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test or SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrange are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, The Bank applies judgement and considers relevant factors such as the currency in which the financial assets is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, The Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test or SPPI test.

'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.

Financial assets at FVPL
Debt instruments that do not meet the amortized cost or FVOCI criteria, or that meet the criteria but the Bank has chosen to designate as at FVPL at initial recognition, are measured at fair value through profit or loss.

Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity instrument that is not held for trading as at FVOCI at initial recognition.

The Bank's financial assets at FVTPL include government securities and derivative istruments.

As of December 31, 2018 and 2017, the Bank has not designated any debt instrument that meets the amortized cost or FVOCI criteria as at FVPL.

Financial assets at FVPL are carried at fair value, with net changes in fair value recognized as 'Trading gains (losses) - net' in the statement of income. Interest earned on these investments is reported as 'Interest income' in the statement of income.

Derivative Instruments
Derivative instruments are initially recorded at fair value and carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of PFRS 9 (for example, financial liabilities and non-financial host contracts) are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVPL. The Bank assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs re-assessment only when there is a change to the contract that significantly modifies the contractual cash flows.

Financial assets at FVOCI
The Bank applies this category when both the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

Subsequently, these are measured at fair value with gains or losses arising due to changes in fair value recognized in OCI under 'Net unrealized gain (loss) on financial assets carried at FVOCI'. Interest income and foreign exchange gains and losses are recognized in the statement of income in the same manner as for financial assets measured at amortized cost. When 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. On derecognition, cumulative gains or losses recognized in OCI are reclassified from OCI to the statement of income.

Equity Instruments at FVOCI
At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity instruments at FVOCI. Designation at FVOCI is not permitted if the investment in equity instrument is held for trading.

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in OCI and accumulated in 'Net unrealized gain (loss) on financial assets carried at FVOCI' in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in 'Net unrealized gain (loss) on financial assets carried at FVOCI' is not reclassified to the statement of income, but is reclassified to 'Surplus'.

Dividends earned on these investments in equity instruments are recognized in the statement of income when the Bank's right to receive the dividends is established in accordance with PFRS 9, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income, under 'Miscellaneous income'

Financial assets at amortized cost
This accounting policy relates to 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and securities purchased under resale agreements', 'Loans and receivables' and financial investments under 'Financial assets at amortized cost'.

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

- the asset is held within the Bank's business model of "Hold" and are managed to realize cash flows by collecting contractual payments over the life of the instrument.
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any impairment in value. The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. The reclassification will be applied prospectively from the 'reclassification date', which is defined as, the first day of the first reporting period following the change in business model that results in the Bank reclassifying financial assets. Accordingly, any previously recognized gains, losses or interest will not be restated.

Financial Instruments - Initial Recognition and Subsequent Measurement (Before January 1, 2018)

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. 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.

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.

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, 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 receivables from customers, accounts receivable, accrued interest receivables, sales contract receivables, and returned checks and other check items (RCOCI). 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 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, 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.

Impairment of Financial Assets (Beginning January 1, 2018)
From January 1, 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets carried at amortized cost, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under PFRS 9.

Staging assessment
The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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" and "cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. 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 and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

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 parameters and methodologies
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 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.

Write-offs
The Bank's accounting policy for write-offs of financial assets under PFRS 9 remains the same as it was under PAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery.

<u>Impairment of Financial Assets (Before January 1, 2018)</u>
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 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 statement 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.

<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.

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.

The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

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.

Chattel Properties Acquired

Chattel properties acquired include 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 chattel 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, Chattel properties acquired and Software costs
At each reporting date, the Bank assesses whether there is any indication that its property and equipment, investment properties, chattel 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
Effective January 1, 2018, under PFRS 15, *Revenue from contracts with customers* is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has generally concluded that it is the principal in its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
Interest on interest-bearing financial assets at FVPL are recognized based on contractual rate. Interest on financial instruments measured at amortized cost and debt instruments classified as FVOCI is recognized based on the EIR method.

The EIR method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

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

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed under 'Impairment of financial assets (effective January 1, 2018)' above), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or 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 chattel 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 when services have been rendered.

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, debt financial assets at FVOCI 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.

<u>Expenses</u>
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.

<u>Leases</u>
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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in the OCI 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

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively, with earlier application of the amendments 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.

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.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application of the amendments permitted.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*. Early application of the amendments 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.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. Early application of the amendments is permitted.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary

to prepare that asset for its intended use or sale are complete. Early application of the amendments is permitted.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs.

  The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application of the amendments permitted.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application of the amendments permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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. 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.

<u>Estimates</u>

a. *Credit losses on loans and receivables*

   <u>Beginning January 1, 2018</u>
   The measurement of credit losses under PFRS 9 requires significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

   The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include, among others:

   - Segmentation of the portfolio, where the appropriate model or ECL approach is used
   - Criteria for assessing if there has been a SICR so allowances for debt financial assets should be measured on a lifetime ECL basis and the qualitative assessment
   - Segmentation of debt financial assets when their ECL is assessed on a collective basis

- Development of ECL models, including the various formulas and choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomics scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Refer to Note 2 for detailed discussions regarding the abovementioned significant judgments and estimates in relation to ECL estimation.

The gross carrying amounts of financial assets subject to ECL as of December 31, 2018 are disclosed in Note 4, while the related ECL allowances for credit losses are disclosed in Note 9.

In 2018, the provision for credit losses on these financial assets amounted to ₱7.70 billion (Note 9).

Prior to January 1, 2018
The Bank reviews its loan portfolio to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement 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.

As of December 31, 2017, the carrying value of loans and receivables and its related allowance for credit and impairment losses amounted to ₱71.4 billion and ₱1.5 billion, respectively (see Note 9).

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, 2018 and 2017, the Bank recognized deferred tax assets amounting to ₱913.5 million and ₱704.4 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, 2018 and 2017, the fair value of the Bank's derivative assets amounted to ₱433.5 million and ₱65.0 million , respectively (see Notes 6 and 17). As of December 31, 2018 and 2017, the fair value of the Bank's derivative liabilities amounted to ₱356.6 million and ₱146.5 million , respectively (see Note 17).

d. *Fair values of unquoted equity securities*
The fair values of unquoted equity securities that are not quoted in active market are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified independent personnel. All models are reviewed before they are used, and model are calibrated to ensure that outputs reflect actual data, however, areas such as credit risk (both own and counterparty), volalities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Fair value measurements of financial instruments are disclosed in Note 5.

e. *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 20.

The Bank's net pension liability as of December 31, 2018 and 2017 amounted to ₱228.4 million and ₱364.8 million, respectively (see Notes 16 and 20).

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 of the Board, 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, 2018 and 2017:

	December 31, 2018			
	Maximum Exposure			
	Gross maximum exposure	Fair value of collateral	Financial effect of collateral	Net exposure
Loans and receivables:				
Loans:				
Corporate	₱23,553,905,054	₱5,344,105,770	₱1,863,074,106	₱21,690,830,948
Commercial	3,430,911,352	3,267,640,130	1,659,891,446	1,771,019,906
Consumer:				
Auto loans	35,297,894,164	66,405,820,270	32,944,805,571	2,353,088,593
Housing loans	11,011,337,129	18,320,036,714	10,785,548,803	225,788,325
Others	2,069,712,427	5,170,716	4,678,679	2,065,033,748
	75,363,760,126	93,342,773,600	47,257,998,605	28,105,761,520
Accounts receivable:				
Corporate	688,862,728	604,365,421	604,365,421	84,497,307
Individual	231,294,928	–	–	231,294,928
	920,157,656	186,283,874	604,365,421	315,792,235
Sales contract receivable:				
Individual	34,596,919	83,591,596	34,596,919	–
Corporate	6,927,757	7,925,262	6,927,757	–
	41,524,676	91,516,858	41,524,676	–
RCOCI	451,886	451,886	451,886	–
	₱76,325,894,344	₱94,039,107,765	₱47,904,340,588	₱28,421,553,755

	December 31, 2017			
	Maximum Exposure			
	Gross maximum exposure	Fair value of collateral	Financial effect of collateral	Net exposure
Loans and receivables:				
Loans:				
Corporate	₱23,381,072,957	₱3,639,516,262	₱5,039,207,981	₱18,341,864,976
Commercial	3,515,738,708	3,046,885,314	1,947,832,027	1,567,906,681
Consumer:				
Auto loans	33,508,845,012	59,796,399,012	33,494,006,859	14,838,153
Housing loans	7,594,107,167	12,938,973,807	7,594,107,167	–
Others	1,947,523,034	–	–	1,947,523,034
	69,947,286,878	79,421,774,395	48,075,154,034	21,872,132,844
Accounts receivable:				
Corporate	677,396,493	677,396,493	615,850,226	61,546,267
Individual	124,737,607	–	–	124,737,607
	802,134,100	677,396,493	615,850,226	186,283,874
Accrued interest receivable	610,792,806	610,792,806	610,792,806	610,792,806
Sales contract receivable:				
Individual	57,583,230	57,583,230	57,583,230	–
Corporate	3,184,345	3,184,345	3,184,345	–
	60,767,575	60,767,575	60,767,575	–
RCOCI	322,390	322,390	322,390	–
	71,421,303,749	80,771,053,659	49,362,887,031	22,669,209,524

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2018 and 2017.

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, 2018		December 31, 2017	
	Amount	**%**	Amount	%
Loans and Receivables				
Wholesale and retail, repair of motor vehicles, motorcycles and personal household goods	**₱18,724,765**	**24.51**	12,205,772	17.09
Construction and real estate	**12,549,626**	**16.43**	₱16,997,090	23.80
Transportation, storage and communication	**6,883,419**	**9.01**	6,860,294	9.61
Power, electricity and water distribution	**6,082,797**	**7.96**	4,734,541	6.63
Trading and manufacturing	**5,093,786**	**6.67**	3,930,034	5.50
Financial intermediaries	**3,413,139**	**4.47**	3,689,184	5.17
Agriculture	**1,593,445**	**2.09**	1,536,612	2.15
Government	**1,098,789**	**1.44**	996,946	1.40
Other	**20,939,615**	**27.42**	20,470,831	28.66
	76,379,381	**100.00**	71,421,304	100.00

(Forward)

	December 31, 2018		December 31, 2017	
	Amount	**%**	Amount	%
Loans and Advances to Banks*				
Government	**₱13,670,379**	**87.45**	₱20,083,757	87.45
Financial intermediaries	**13,090,490**	**12.55**	2,889,498	12.55
	26,760,869	**100.00**	22,973,255	100.00
Trading and Financial Investment Securities**				
Government	**₱12,896,742**	**74.95**	₱5,592,053	60.12
Financial intermediaries	**1,718,053**	**9.98**	1,810,042	19.46
Trading and manufacturing	**1,632,107**	**9.48**	1,533,188	16.48
Construction and real estate	**960,393**	**5.58**	317,251	3.41
Transportation, storage and communication	–	**0.00**	45,471	0.49
Others	–	**0.00**	3,156	0.03
	17,207,295	**100.00**	9,301,161	100.00
Other***				
Wholesale and retail, repair of motor vehicles, motorcycles and personal household goods	**₱41,500**	**1.43**	₱1,855,894	71.16
Trading and manufacturing	**447,351**	**15.45**	517,568	19.84
Financial intermediaries	**2,154,950**	**74.42**	159,081	6.10
Power, electricity and water distribution	**117,881**	**4.07**	41,500	1.59
Construction and real estate	**6,573**	**0.23**	34,081	1.31
Others	**127,445**	**4.40**	–	–
	2,895,700	**100.00**	2,608,124	100.00
	₱123,239,313		₱106,303,844	

* Consists of Due from BSP, Due from other banks and Interbank loans receivables and SPURA

** Consists of Financial assets at FVPL, AFS investments or financial assets at FVOCI and HTM investments or investment securities at amortized cost

*** Consists of Miscellaneous COCI and Contingent liabilities relating to outstanding letters of credit

Credit quality per class of financial assets

The Bank for investment securities and depository accounts. 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 or adopt the Bank's internal risk rating.

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-off 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 credit quality of the Bank's receivables from customers as of December 31, 2018 follow (in thousands):

	Stage 1	Stage 2	Stage 3	TOTAL
Auto				
High Grade	₱30,056,220	₱450,940	₱–	₱30,507,159
Especially Mentioned	2,289,160	427,889	–	2,717,049
Substandard Grade	–	1,865,687	136,789	2,002,475
Doubtful	–	–	695,871	695,871
Auto Total	32,345,380	2,744,515	832,660	35,922,555
Commercial				
High Grade	1,863,681	–	5,352	1,869,033
Standard grade	1,281,322	71,229	-	1,352,551
Substandard Grade	101,245	22,384	-	123,629
Especially Mentioned	49,629	–	-	49,629
Doubtful	–	–	7,274	7,274
Non-performing grade	-	–	235,980	235,980
Commercial Total	3,295,876	93,613 –	248,605	3,638,095
Corporate				
High Grade	9,251,667	–	–	9,251,667
Standard grade	13,252,239	678,489	-	13,930,728
Substandard Grade	183,039	227,665	-	410,703
Non-performing grade	–	–	414,125	414,125
Corporate Total	22,686,945	906,154	414,125	24,007,224
Housing				
High Grade	9,970,065	134,106 –	-	10,104,172
Substandard Grade	–	429,745 –	27,935	457,680
Especially Mentioned	505,958	131,528 –	-	637,486
Doubtful	–	–	94,359	94,359
Non-performing grade	–	–	625	625
Housing Total	10,476,023	695,379 –	122,919	11,294,321
Other				
High Grade	2,035,496	67,818 –	31,293	2,134,608
Substandard Grade	–	22,023 –	1,261	23,284
Especially Mentioned	33,170	3,268 –	1,947	38,385
Doubtful	–	8,230 –	4,688	12,918
Non-performing grade	–	- –	25,644	25,644
Other Total	2,068,666	101,339	64,833	2,234,838
Grand Total	70,872,890	4,541,001	1,683,141	77,097,032

The credit quality of the Bank's financial assets other than loans and receivables as of December 31, 2018 follow:

	Stage 1	Stage 2	Stage 3	TOTAL
Due from BSP				
High Grade	₱13,670,379	₱–	₱–	₱13,670,379
Especially Mentioned	–	–	–	–
Doubtful	–	–	–	–
Substandard Grade	–	–	–	–
Due from BSP Total	13,670,379	–	–	₱13,670,379
Due from other banks				
High Grade	13,094,057	–	–	₱13,094,057
Substandard Grade	–	–	–	–
Especially Mentioned	–	–	–	–
Doubtful	–	–	–	–
Due from other banks	13,094,057	–	–	₱13,094,057
Financial Instruments at Fair Value Through Other Comprehensive Income				
High Grade	4,289,577	–	–	₱4,289,577
Substandard Grade				
Financial Instruments at Fair Value Through Other Comprehensive Income-Total	4,289,577	–	–	₱4,289,577
Financial Instruments at Amortized Cost				
High Grade	11,430,290	300,000	–	₱11,730,290
Substandard Grade	570,000			570,000
Financial Instruments at Amortized Cost-Total	12,000,290	300,000	–	₱12,300,290

	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
	₱15,127,322	–	–	–	–	22,973,255
Financial assets at FVPL:						
HFT investments:						
Government securities	1,242,777	–	–	–	–	1,242,777
Private debt securities	–	–	–	–	–	–
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	9,251,667	13,930,728	410,703	-		414,126
Commercial	275,324	1,352,551	117,745	1,621,319		271,156
Consumer:						
Auto loans	-	-	-	30,937,817		4,984,738
Housing loans	-	-	-	10,167,647		1,126,674
Others	-	-	-	2,043,222		191,616
	9,526,991	15,283,279	528,448	44,770,005		6,988,310
Unquoted debt securities:						
Government	–	–	–	–	189,167	189,167
	–	–	–	–	189,167	189,167
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
	–	–	–	53,470	9,776	63,246

As of December 31, 2018 and 2017, allowance on individually impaired receivables of the Bank amounted to ₱412.16 million and ₱252.7 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. 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

Impairment assessment (effective after January 1, 2018)
The Bank uses a provision matrix to calculate ECL for receivables from retail customers. The provision matrix is initially based on the Bank's historical observed default rates. The Bank calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in the financial sector, the historical default rates will be adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Impairment assessment (prior to January 1, 2018)
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 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 such as evaluation, analysis and recommendations on the management of market and liquidity risks, treasury credit, balance sheet and funding initiatives to ALCO and to Credit Committee 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
- 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.

<u>Interest rate risk</u>

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 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 tables below are the Interest Rate Sensitivities (PV01) Report - By Portfolio as at December 31, 2018 and 2017.

	Rates Trading	
Desk	**2018**	2017
PHP	**(₱1,482)**	(₱58,660)
USD	**0.000**	28.460
Net	**(₱1,482)**	(₱58,660)

	Interest Rate Derivatives	
Desk	**2018**	2017
PHP	**(₱46,064)**	₱55,094
USD	**12,824**	(0.500)
Net	**(₱33,320)**	₱55,094

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 banking book portfolio.

Shown in the table below is the Interest Rate Sensitivities (PV01) Report of GM's Rates Banking Book Investments as at December 31, 2018 and 2017 (amounts expressed in thousands).

	Rates Banking	
Desk	**2018**	2017
PHP	**(₱2,842)**	(₱1,620)
USD	**(1,579)**	(1,823)
NET	**(₱4,421)**	(₱3,443)

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 generates 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 point (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 are 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, 2018 and 2017 (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**

The impact on the Bank's equity represents impact on OCI and excludes the impact on transactions affecting the statements of income.

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 statements of income.

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.

The Bank has significant exposure to US$ monetary assets and liabilities as of December 31, 2018 and 2017.

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, 2018	
Changes in foreign currency exchange rate	**+5.0%**	**-5.0%**
Effect on profit before tax (in thousands)	**(₱44,929)**	**₱44,929**

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

Trading FX USD Position

	2018			2017	
	Spot	**Forwards**	**FX Options**	Spot	Forwards
PV01	**(12.23)**	**(758.58)**	**(0.34)**	(99.36)	138.81

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 statement of financial position 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 approved by the CRO; subsequent discussion is done in the ALCO and 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 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.

Liquidity coverage ratio

On March 10, 2016, the BSP issued Circular No. 905 which provides the implementing guidelines on Liquidity Coverage Ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100.00%. Compliance with the minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019.

The Bank monitors its LCR on a daily basis; joint management and monitoring are carried out by Global Markets and Group Finance. As of December 31, 2018, bankwide LCR level as reported to the BSP stood at 113.96%.

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, 2018					
	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	₱1,685,366	₱–	₱–	₱–	₱–	₱1,685,366
Due from BSP	13,670,379	–	–	–	–	13,670,379
Due from other banks	13,090,490	–	–	–	–	13,090,490
Financial assets at FVPL:						
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, 2018					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 year	Total
Financial assets at FVOCI:						
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
Financial assets at amortized cost:						
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	6,114,687	4,368,547	1,546,281	557,993	17,705,395	30,292,903
Commercial	1,382,083	933,883	648,618	379,257	457,536	3,801,377
Consumer:						
Auto loans	112,366	131,781	382,506	1,425,084	45,781,952	47,833,689
Housing loans	1,792	853	1,985	11,928	20,035,092	20,051,650
Others	973,596	14,701	35,046	183,380	1,592,544	2,799267
	8,584,524	5,449,765	2,614,436	2,557,642	85,572,519	104,778,886
Sales contract receivable:						
Individual	191	697	–	987	32,722	34,597
Corporate	–	–	–	–	6,928	6,928
	191	697	–	987	39,650	41,525
Accounts receivable:						
Corporate	36,718	20,627	9,978	14,307	673,155	754,785
Individual	1,196	1,023	1,132	1,129	240,268	244,748
	37,914	21,650	11,110	15,436	913,423	999,533
Accrued interest receivable	3,055	15,470	10,240	24,399	570,051	633,215
RCOCI	452	–	–	–	–	452
	₱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	–	–	–	–	15,046	15,046
	56,186,709	18,703,566	1,773,092	3,525,160	16,316,577	96,505,104
Contingent liabilities	162,297	2,363,512	231,689	138,654	–	2,896,152
	₱57,663,648	₱19,112,875	₱2,090,994	₱3,838,325	₱16,407,388	₱99,113,230

	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
Private debt securities	–	–	–	–	–	–
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
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
Unquoted debt securities:						
Government	–	–	–	–	–	–
	–	–	–	–	–	–
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

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:

	2018				
		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	**₱179,972,246**	**₱179,972,246**	**₱179,972,246**	**₱–**	**₱–**
Derivative assets	**433,523,619**	**433,523,619**	**–**	**433,523,619**	**–**
AFS investments:					
Government securities	**3,490,814,621**	**3,490,814,621**	**3,490,814,621**	**–**	**–**
Private debt securities	**774,617,754**	**774,617,754**	**774,617,754**	**–**	**–**
Quoted equity securities	**8,761,382**	**8,761,382**	**8,761,382**	**–**	**–**
	4,274,193,757	**4,274,193,757**	**4,274,193,757**	**–**	**–**
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	**12,319,604,567**	**12,336,928,764**	**12,336,928,764**	**–**	**–**
Private debt securities	**–**	**–**	**–**	**–**	**–**
	12,319,604,567	**12,336,928,764**	**12,336,928,764**	**–**	**–**
Loans and receivables					
Receivable from customers:			**–**	**–**	
Corporate lending	**21,682,185,906**	**21,682,185,906**	**–**	**–**	**22,859,976,095**
Commercial lending	**5,116,833,068**	**5,116,833,068**	**–**	**–**	**3,674,989,783**
Consumer lending	**49,451,713,551**	**49,451,713,551**	**–**	**–**	**52,539,060,573**
	77,074,243,584	**77,074,243,584**	**–**	**–**	**79,074,026,451**
Non-financial assets					
Investment properties	**1,338,292,042**	**2,034,858,752**	**–**	**–**	**2,034,858,752**
Total assets	**₱94,796,318,756**	**₱98,153,531,343**	**₱16,611,122,521**	**₱433,523,619**	**₱81,108,885,203**
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	**₱619,298,849**	**₱619,298,849**	**₱–**	**₱619,298,849**	**₱–**
Liabilities for which fair values are disclosed					
Financial liabilities					
Time deposits	**44,361,105,002**	**44,361,105,002**	**–**	**–**	**44,361,105,002**
Bills payable	**20,685,920,000**	**20,685,920,000**	**–**	**–**	**20,685,920,000**
Subordinated debt	**1,990,956,784**	**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–**

	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
Total liabilities	₱48,369,894,578	₱48,231,312,672	₱–	₱146,483,530	₱48,084,829,142–

In 2018 and 2017, 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 consists 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 financial investments at FVOCI) 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 PH BVAL reference 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:

	2018	2017
Government securities	**₱179,972,246**	₱1,242,776,816
Derivative assets (Note 17)	**129,104,043**	65,009,362
	₱613,495,866	₱1,307,786,178

As of December 31, 2018 and 2017, financial assets at FVPL include net unrealized loss of ₱108.32 million and ₱51.05 million, respectively.

Effective interest of government securities ranges from 4.93% to 6.60% and 2.70% to 5.33% in 2018 and 2017, respectively.

Interest income on financial assets at FVPL amounted to ₱21.5 million and ₱48.0 million in 2018 and 2017, respectively.

Peso-denominated financial investments at FVTPL consist bear nominal interest rates ranging from 2.13% to 8.00% for the years ended December 31, 2018 and 2017, respectively.

7. Financial Investment at FVOCI and Available-for-Sale Investments

Investment securities are FVOCI as of December 31, 2018 consist of the following:

Debt instruments:	
Government securities (Note 13)	**₱4,265,432,375**
Private	**8,761,382**
	4,274,193,757
Unquoted equity instruments	**15,383,600**
	₱4,289,577,357

As of December 31, 2018, the ECL on debt securities at FVOCI (included in 'Net unrealized loss in investment securities at FVOCI') amounted to ₱3.06 million.

AFS investments as of December 31, 2017 consist of the following:

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

Debt instruments:	
Government securities (Note 13)	₱3,053,052,753
Private	2,112,172,933
	5,165,225,686
Equity:	
Quoted	8,761,382
Unquoted	3,163,900
	11,925,282
	₱5,177,150,968

	2018	2017
Balance at the beginning of the year, as previously reported	**(72,471,699)**	(11,757,110)
Effect of PFRS 9 adoption	**66,950,539**	
Balance at the beginning of the year, as restated	**(5,521,160)**	
Amounts realized in profit or loss (Note 22)	**(132,166,918)**	(53,546,784)
Changes in fair value recognized in equity	**(22,153,387)**	(7,167,805)
	(159,841,465)	(₱72,471,699)

Interest income from FVOCI/AFS Investments in 2018 and 2017 amounted to ₱196.47 million and ₱181.67 million, respectively.

Peso-denominated and foreign currency-denominated financial investments at FVOCI bear nominal interest rates ranging from 3.88% to 7.88% and 2.75%, respectively, for the year ended December 31, 2018. Interest income on financial investments at FVOCI is net of amortization of net premium amounting to ₱52.9 million for the year ended December 31, 2018.

Peso-denominated and foreign currency-denominated AFS investments bear nominal interest rates ranging from 3.50% to 6.21% and 2.95% to 7.45%, respectively, for the year ended December 31, 2017. Interest income on AFS debt securities is net of amortization of net premium amounting to ₱5.9 million for the year ended December 31, 2017.

8. Held-to-Maturity Investments and Investment Securities at Amortized Cost

This account consists of:

	2018	2017
Government securities (Note 27)	**₱12,319,604,567**	₱1,296,223,510
Private debt securities	**–**	1,520,000,000
	12,319,604,567	2,816,223,510
Allowance for credit losses	**(19,314,318)**	–
	₱12,300,290,249	₱2,816,223,510

Peso-denominated government bonds have effective interest rates ranging from 2.97% to 6.64% and 2.18% to 5.32% in 2018 and 2017, respectively. Foreign currency- denominated bonds have effective interest rates ranging from 2.28% to 5.52% and 3.70% to 5.26% in 2018 and 2017, respectively.

Interest income from Financial Assets held at Amortized Cost/Held-to-Maturity Investments amounted to ₱334.98 million and ₱147.72 million in 2018 and 2017, respectively.

Peso-denominated and foreign currency-denominated financial investments at amortized cost bear nominal interest rates ranging from 3.50% to 6.64% and 2.95% to 9.88%, respectively, for the year ended December 31, 2018. Interest income on financial investments at amortized cost is net of amortization of net premium amounting to ₱12.4 million for the year ended December 31, 2018.

Peso-denominated and foreign currency-denominated HTM investments bear nominal interest rates ranging from 2.13% to 5.63% and 5.25% to 9.88%, respectively, for the year ended December 31, 2017. Interest income on HTM investments is net of amortization of net premium amounting to ₱34.0 million for the year ended December 31, 2017.

9. Loans and Receivables

This account consists of:

	2018	2017
Receivables from customers:		
Corporate (Note 28)	**₱24,007,223,631**	₱23,820,904,929
Commercial (Note 28)	**3,638,094,814**	3,657,740,509
Consumer:		
Auto loans	**35,922,555,222**	34,068,204,583
Housing loans	**11,294,320,769**	7,710,553,362
Others	**2,234,837,560**	2,090,488,950
	77,097,031,996	71,347,892,333
Less unearned discounts and other deferred income	**22,788,412**	20,098,285
	77,074,243,584	71,327,794,048
Accounts receivable:		
Corporate (Note 28)	**754,785,109**	774,655,224
Individual	**234,555,468**	155,639,319
	989,340,577	930,294,543
Less unearned discounts and other deferred income	**–**	1,975,961
	989,340,577	928,318,582
Accrued interest receivable (Note 28)	**757,142,440**	633,215,277
Sales contract receivable:		
Individual	**34,596,919**	63,245,941
Corporate	**6,927,757**	3,473,252
	41,524,676	66,719,193
RCOCI	**451,886**	322,390
	78,862,703,163	72,956,369,490
Less allowance for credit losses	**2,483,321,981**	1,535,065,741
	₱76,379,381,182	₱71,421,303,749

Loans consist of:

	2018	2017
Loans and discounts	**₱73,165,966,269**	₱68,336,975,697
Customers' liabilities and other loans	**3,680,806,367**	2,662,128,337
Bills purchased (Note 16)	**100,906,484**	176,112,421
Restructured loans	**149,352,881**	172,675,878
	₱77,097,031,996	₱71,347,892,333

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/other movements	–	(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

**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.*

Changes in the staging assessment of loans receivable are presented below:

	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Gross carrying amount as at January 1, 2018	**₱21,816,085**	**₱1,507,713**	**₱497,107**	**₱23,820,905**
New assets originated or purchased	**12,963,269**	**248,939**	**–**	**13,212,208**
Payments and assets derecognized (excluding write offs)	**(12,508,520)**	**(399,098)**	**(118,271)**	**(13,025,889)**
Transfers to Stage 1	**674,901**	**(674,901)**	**–**	**–**
Transfers to Stage 2	**(258,790)**	**258,790**	**–**	**–**
Transfers to Stage 3	**–**	**(35,290)**	**35,290**	**–**
At December 31, 2018	**22,686,945**	**906,153**	**414,126**	**24,007,224**
Commercial loans				
Gross carrying amount as at January 1, 2018	**3,235,503**	**250,909**	**171,329**	**3,657,741**
New assets originated or purchased	**3,061,594**	**93,613**	**61,142**	**3,216,349**
Payments and assets derecognized (excluding write offs)	**(3,012,942)**	**(96,097)**	**(126,956)**	**(3,235,995)**
Transfers to Stage 1	**120,275**	**(120,275)**	**–**	**–**
Transfers to Stage 2	**(49,461)**	**49,461**	**–**	**–**
Transfers to Stage 3	**(59,091)**	**(83,998)**	**143,089**	**–**
At December 31, 2018	**3,295,878**	**93,613**	**248,604**	**3,638,095**
Auto loans				
Gross carrying amount as at January 1, 2018	**31,045,586**	**2,298,079**	**724,517**	**34,068,182**
New assets originated or purchased	**13,720,709**	**646,916**	**81,378**	**14,449,003**
Payments and assets derecognized (excluding write offs)	**(10,702,587)**	**(1,423,668)**	**(322,452)**	**(12,448,707)**
Transfers to Stage 1	**583,852**	**(564,335)**	**(19,517)**	**-**
Transfers to Stage 2	**(2,016,834)**	**2,048,608**	**(31,774)**	**-**
Transfers to Stage 3	**(279,346)**	**(261,085)**	**540,431**	**-**
Amounts written off				
At December 31, 2018	**–**	**–**	**(139,923)**	**(139,923)**
Housing loans				
Gross carrying amount as at January 1, 2018	**7,051,042**	**571,941**	**87,571**	**7,710,554**
New assets originated or purchased	**4,456,333**	**118,135**	**9,038**	**4,583,506**
Payments and assets derecognized (excluding write offs)	**(640,300)**	**(305,280)**	**(54,160)**	**(999,740)**
Transfers to Stage 2	**(354,669)**	**356,403**	**(1,734)**	**–**
Transfers to Stage 3	**(36,383)**	**(45,820)**	**82,203**	**–**
At December 31, 2018	**10,476,023**	**695,379**	**122,918**	**11,294,320**
Others				
Gross carrying amount as at January 1, 2018	**1,948,756**	**75,446**	**66,288**	**2,090,490**
New assets originated or purchased	**788,610**	**14,879**	**5,473**	**808,962**
Payments and assets derecognized (excluding write offs)	**(603,797)**	**(18,108)**	**(42,709)**	**(664,614)**
Transfers to Stage 1	**5,586**	**(4,539)**	**(1,047)**	**–**
Transfers to Stage 2	**(37,384)**	**38,342**	**(958)**	**–**
Transfers to Stage 3	**(33,104)**	**(4,681)**	**37,785**	**–**
At December 31, 2018	**2,068,667**	**101,339**	**64,832**	**2,234,838**

Movement of ECL during the year is presented in the table below:

	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at beginning of the year	**₱255,348**	**₱49,626**	**₱255,172**	**₱560,146**
New assets originated or purchased that remained at Stage 1 as at December 31, 2018	**638**	**–**	**–**	**638**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	**–**	**–**	**115,882**	**115,882**
Effect of collections and other movements in receivable balance	**(13,647)**	**(5,910)**	**(24,792)**	**(44,349)**
Transfers from Stage 1	**11,113**	**(11,113)**	**–**	**–**
Transfers from Stage 2	**(1,887)**	**1,887**	**–**	**–**
Transfers from Stage 3	**–**	**(15,262)**	**15,262**	**–**
At December 31, 2018	**251,565**	**19,228**	**361,524**	**632,317**

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Balance at beginning of the year	**₱33,049**	**₱10,895**	**₱117,406**	**₱161,350**
New assets originated or purchased that remained at Stage 1 as at December 31, 2018	**72**	**–**	**–**	**72**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	**–**	**93,613**	**61,142**	**154,755**
Effect of collections and other movements in receivable balance	**1,874**	**(93,775)**	**(10,294)**	**(102,195)**
Transfers from Stage 1	**3,177**	**(3,177)**	**–**	**–**
Transfers from Stage 2	**(487)**	**487**	**–**	**–**
Transfers from Stage 3	**(671)**	**671**	**7,651**	**–**
At December 31, 2018	**37,014**	**1,063**	**175,905**	**213,982**
Auto loans				
Balance at beginning of the year	**509,185**	**53,565**	**279,883**	**842,633**
New assets originated or purchased that remained at Stage 1 as at December 31, 2018	**264,476**	**–**	**–**	**264,476**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	**–**	**25,276**	**28,035**	**53,311**
Effect of collections and other movements in receivable balance	**(208,292)**	**(38,851)**	**186,188**	**(60,955)**
Write-offs	**–**	**–**	**(139,923)**	**(139,923)**
Transfers from Stage 1	**19,672**	**(13,241)**	**(6,431)**	**–**
Transfers from Stage 2	**(36,330)**	**47,293**	**(10,963)**	**–**
Transfers from Stage 3	**(5,521)**	**(6,556)**	**12,077**	**–**
At December 31, 2018	**543,190**	**67,486**	**348,866**	**959,542**
Housing loans				
Balance at beginning of the year	**97,238**	**30,741**	**28,741**	**156,720**
New assets originated or purchased that remained at Stage 1 as at December 31, 2018	**134,108**	**–**	**–**	
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	**–**	**12,347**	**3,150**	**15,497**
Effect of collections and other movements in receivable balance	**(3,109)**	**18,838**	**9,906**	**25,635**
Transfers from Stage 1	**12,281**	**(10,833)**	**(1,448)**	**–**
Transfers from Stage 2	**(5,001)**	**5,570**	**(569)**	**–**
Transfers from Stage 3	**(519)**	**(2,537)**	**3,056**	**–**
At December 31, 2018	**234,998**	**54,126**	**42,836**	**331,960**
Other loans				
Balance at beginning of the year	**156,032**	**22,984**	**48,267**	**227,283**
New assets originated or purchased that remained at Stage 1 as at December 31, 2018	**52,358**	**–**	**–**	**52,358**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	**–**	**1,736**	**4,349**	**6,085**
Effect of collections and other movements in receivable balance	**(89,999)**	**(8,572)**	**(5,371)**	**(103,942)**
Transfers from Stage 1	**1,116**	**(352)**	**(764)**	**–**
Transfers from Stage 2	**(1,471)**	**1,985**	**(514)**	**–**
Transfers from Stage 3	**(1,306)**	**(420)**	**1,726**	**–**
At December 31, 2018	**116,730**	**17,361**	**47,693**	**181,784**

Interest income on loans and receivables consists of:

	2018	2017
Loans and discounts	**₱6,337,242,942**	₱5,641,592,116
Customers' liabilities and other loans	**176,713,090**	114,686,753
Accounts receivable - PPI (Note 29)	**33,103,843**	31,027,945
Restructured loans	**12,001,113**	9,079,831
Sales contract receivable	**3,453,461**	3,692,230
	₱6,562,514,449	₱5,800,078,875

Of the total peso-denominated loans of the Bank as of December 31, 2018 and 2017, 40.67% and 95.38%, respectively, are subject to periodic interest repricing. Remaining peso-denominated loans earned annual EIR ranging from 2.99% to 31.68% and from 1.00% to 41.30% for the years ended December 31, 2018 and 2017, respectively. All foreign currency-denominated loans of the Bank as of December 31, 2018 and 2017 are subject to periodic interest repricing and earned annual EIR ranging from 3.04% to 8.43% and from 2.05% to 7.29% for the years ended December 31, 2018 and 2017, respectively.

All sales contract receivable as of December 31, 2018 and 2017 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:

	2018	2017
Gross NPLs	**₱1,645,054,116**	₱1,505,097,676
Less: Deductions as required by the BSP	**976,825,324**	659,308,126
Net NPLs	**₱668,228,792**	₱845,789,550

Prior to January 1, 2018, 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.

With the issuance of BSP Circular 941 *Amendments to the Regulations on Past Due and Non-Performing Loans* effective January 1, 2018, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

As of December 31, 2018 and 2017, secured and unsecured NPLs of the Bank, as reported to the BSP follow:

	2018	2017
Secured	**₱932,848,869**	₱805,508,739
Unsecured	**712,205,247**	699,588,937
	₱1,645,054,116	₱1,505,097,676

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, 2018		December 31, 2017	
	Amount	**%**	Amount	%
Secured by:				
Chattel	**₱ 32,944,806**	**42.73**	₱31,260,654	43.81
Real estate	**12,561,491**	**16.29**	8,850,998	12.41
Deposits hold-out	**1,759,112**	**2.28**	364,220	0.51
Others	–	–	323,101	0.45
	47,265,409	**61.31**	40,798,973	57.18
Unsecured	**29,831,623**	**38.69**	30,548,919	42.82
	₱77,097,032	**100.00**	₱71,347,892	100.00

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

	December 31, 2018		December 31, 2017	
	Gross Amount	**%**	Gross Amount	%
Consumer	**₱34,879,278**	**45.24**	₱34,790,436	48.76
Real estate activities	**12,724,184**	**16.50**	13,880,584	19.45
Wholesale and retail trade	**7,700,958**	**9.99**	6,279,022	8.8
Electric, gas, steam and air-conditioning supply	**4,358,624**	**5.65**	4,263,409	5.98
Manufacturing	**5,226,171**	**6.78**	2,504,855	3.51
Transportation and storage,	**2,437,497**	**3.16**	2,387,131	3.35
Accomodation and food service activities	**1,371,324**	**1.78**	1,860,580	2.61
Financial and insurance activities	**2,537,807**	**3.29**	1,754,846	2.46
Other service activities	**607,662**	**0.79**	1,017,481	1.43
Agriculture, forestry and fishing	**484,479**	**0.63**	900,792	1.26
Construction	**2,882,700**	**3.74**	856,696	1.20
Mining and quarrying	**72,632**	**0.09**	425,638	0.60
Human health and social work activities	**1,470,318**	**1.91**	252,068	0.35
Education	**343,398**	**0.45**	174,354	0.24
	₱77,097,032	**100.00**	₱71,347,892	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, 2018 and 2017, receivable from PPI (included under Accounts Receivable - Corporate) has a carrying value of ₱600.5 million and ₱634.4 million, respectively. The receivable bears an interest rate based on one month PH BVAL reference rates 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, 2018			
	Condominium Units	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost				
Balances at beginning of year	**₱262,553,193**	**₱839,964,250**	**₱555,477,996**	**₱1,657,995,439**
Additions	**–**	**71,166,169**	**8,736,543**	**79,902,713**
Disposals/write-off	**–**	**(13,591,498)**	**–**	**(13,591,498)**
Balances at end of year	**262,553,193**	**897,538,921**	**564,214,539**	**1,724,306,654**
Accumulated Depreciation and Amortization				
Balances at beginning of year	**156,012,041**	**645,562,147**	**504,858,752**	**1,306,432,940**
Depreciation and amortization	**25,181,004**	**80,164,202**	**31,182,897**	**136,528,103**
Disposals/write-off	**–**	**(5,924,771)**	**–**	**(5,924,771)**
Balances at end of year	**181,193,045**	**719,801,578**	**536,041,649**	**1,437,036,272**
Net Book Value at end of year	**₱81,360,148**	**₱177,737,343**	**₱28,172,890**	**₱287,270,381**

	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	–	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

Depreciation and amortization consist of:

	2018	2017
Property and equipment	**₱136,528,103**	₱187,658,847
Chattel properties acquired (Note 12)	**122,606,050**	132,813,167
Investment properties (Note 11)	**56,753,709**	46,681,739
Software costs (Note 12)	**47,992,394**	34,445,512
	₱362,880,256	₱401,599,265

As of December 31, 2018 and 2017, the cost of fully depreciated property and equipment still in use by the Bank amounted to ₱1,034.4 million and ₱755.2 million, respectively.

11. Investment Properties

The composition of and movements in this account follow:

	December 31, 2018		
	Land	**Building**	**Total**
Cost			
Balances at beginning of year	**₱655,056,111**	**₱765,088,175**	**₱1,420,144,286**
Additions	**22,211,696**	**141,701,456**	**163,913,152**
Disposals	**(43,610,608)**	**(26,924,188)**	**(70,534,796)**
Balances at end of year	**633,657,199**	**879,865,443**	**1,513,522,642**
Accumulated Depreciation			
Balances at beginning of year	**–**	**105,144,959**	**105,144,959**
Depreciation	**–**	**55,753,709**	**55,753,709**
Disposals	**–**	**(7,446,788)**	**(7,446,788)**
Balances at end of year	**–**	**153,451,880**	**153,451,880**
Accumulated Impairment Loss			
Balances at beginning of year	**22,061,671**	**6,143,358**	**28,205,029**
Provision (Reversals)	**(20,000)**	**(3,725,946)**	**(3,745,946)**
Disposals	**(2,680,363)**	**–**	**(2,680,363)**
Balances at end of year	**19,361,308**	**2,417,412**	**21,778,720**
Net Book Value at end of year	**₱614,295,891**	**₱723,996,151**	**₱1,338,292,042**

	December 31, 2017		
	Land	Building	Total
Cost			
Balances at beginning of year	₱641,207,475	₱377,379,198	₱1,018,586,673
Additions	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	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

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, 2018 and 2017 amounted to ₱2.03 billion and ₱1.8 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, 2018 and 2017. Direct operating expenses, included in the 'Litigation and assets acquired expenses' in the statements of income arising from investment properties amounted to ₱88.7 million and ₱93.7 million for the years ended December 31, 2018 and 2017, respectively.

12. Other Assets

This account consists of:

	2018	2017
Chattel properties acquired	**₱354,293,864**	₱340,097,397
Software costs	**169,976,589**	160,858,726
Security deposits	**81,273,716**	78,881,437
Prepaid expenses	**39,676,571**	42,924,514
Documentary stamps	**64,465,935**	39,001,179
Prepaid interest	**3,847,173**	7,994,458
Sundry debits	**27,588,014**	2,611,299
Miscellaneous	**86,722,894**	28,808,327
	₱827,844,756	₱701,177,337

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, 2018 and 2017, respectively.

Movements in chattel properties acquired follow:

	2018	2017
Cost		
Balances at beginning of year	**₱509,055,310**	₱447,581,871
Additions (Note 31)	**667,380,045**	726,612,047
Disposals	**(651,673,930)**	(665,138,608)
Balances at end of year	**524,761,425**	509,055,310
Accumulated Depreciation		
Balances at beginning of year	**168,826,538**	128,856,406
Depreciation	**122,606,050**	132,813,167
Disposals	**(120,965,027)**	(92,843,035)
Balances at end of year	**170,467,561**	168,826,538
Accumulated Impairment Loss		
Balances at beginning of year	**131,375**	–
Provision	**(99,900)**	808,741
Disposals	**(31,475)**	(677,366)
Balances at end of year	–	131,375
Net Book Value at end of year	**₱354,293,864**	₱340,097,397

Movements in software costs follow:

	2018	2017
Cost		
Balances at beginning of year	**₱287,087,585**	₱201,602,550
Additions	**57,110,257**	85,485,035
Balances at end of year	**344,197,842**	287,087,585
Accumulated Amortization		
Balances at beginning of year	**126,228,859**	91,783,347
Amortization	**47,992,394**	34,445,512
Balances at end of year	**174,221,253**	126,228,859
Net Book Value at end of year	**₱169,976,589**	₱160,858,726

As of December 31, 2018 and 2017, the cost of fully amortized software still in use by the Bank amounted to ₱81.2 million and ₱73.2 million, respectively.

13. Deposit Liabilities

In 2018, BSP Circular Nos. 997 and 1004 were issued reducing the reserve requirements against deposit and deposit substitute liabilities. As of December 31, 2018, non-FCDU deposit liabilities of the Parent Company and deposit substitutes are subject to required reserves of 18.0% from 20.0% in 2017 while reserves for non-FCDU deposit liabilities remained at 8.0%. Peso-denominated LTNCDs are subject to reserves equivalent to 7.0%. The required reserves can be kept in the form of deposits maintained in the demand deposit accounts with the BSP and any government securities used as compliance until they mature. The Bank is in compliance with such regulations as of December 31, 2018 and 2017.

The total statutory and liquidity reserves (under 'Due from BSP' account) as reported to the BSP are as follows:

	2018	2017
Due from BSP	**₱13,670,378,655**	₱15,127,322,201
AFS investments	**–**	127,024,110
	₱13,670,378,655	₱15,254,346,311

Interest expense on deposit liabilities consists of:

	2018	2017
Time	**₱1,414,659,213**	₱998,746,673
Demand	**149,894,714**	146,884,733
Savings	**213,949,960**	139,193,735
	₱1,778,503,887	₱1,284,825,141

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 7.5% and from 0.25% to 5.25% for the years ended December 31, 2018 and 2017, respectively, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 3.35% and from 0.25% to 2.60% for the years ended December 31, 2018 and 2017, respectively.

14. **Bills Payable**

This account consists of borrowings from banks including related parties (see Note 28) amounting to ₱20.7 billion and ₱9.7 billion as of December 31, 2018 and 2017, respectively. These are unsecured borrowings by the Bank.

Dollar-denominated borrowings are subject to annual EIR ranging from 3.30% to 3.85% and from 0.85% to 3.00% for the years ended December 31, 2018 and 2017, respectively. In 2018, Peso-denominated borrowings are subject to annual EIR of 5.25%.

As of December 31, 2018 and 2017, the terms of the borrowings range from 5 to 352 days.

Interest expense on bills payable and other borrowings consists of:

	2018	2017
Bills payable	**₱370,248,801**	₱103,366,071
Subordinated debt (Note 30)	**112,690,210**	27,069,573
	₱482,939,010	₱130,435,644

15. **Accrued Interest, Taxes and Other Expenses**

This account consists of:

	2018	2017
Accrued employee benefits	**₱319,336,435**	₱348,589,867
Accrued interest payable (Note 29)	**364,605,391**	163,519,968
Accrued rent	**167,745,353**	157,573,527
Accrued taxes and licenses	**121,912,896**	37,265,662
Accrued other expenses	**419,952,913**	425,609,125
	₱1,393,552,988	₱1,132,558,149

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

16. **Other Liabilities**

This account consists of:

	2018	2017
Accounts payable	**₱685,682,211**	₱355,955,241
Net pension liability (Note 20)	**228,373,804**	364,763,166
Withholding taxes payable (Note 31)	**51,143,592**	54,991,888
Bills purchased – contra	**46,296,667**	119,944,925
Other dormant credits	**18,337,251**	140,367,381
Due to the Treasurer of the Philippines	**15,046,647**	15,080,881
Other deferred credits	**637,089**	7,451,595
Miscellaneous	**42,751,187**	15,459,451
	₱1,088,268,448	**₱1,074,014,528**

17. **Derivative Financial Instruments**

As of December 31, 2018 and 2017, 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, 2018			December 31, 2017		
	Notional Amount	**Derivative Asset**	**Derivative Liability**	Notional Amount	Derivative Asset	Derivative Liability
Interest rate swaps	**US$1,051,600,000**	**₱–**	**₱47,675,824**	US$20,000,000	₱–	₱29,720,040
	₱2,900,000,000	**329,364,424**	**289,960,391**	₱550,000,000	4,988,599	599,651
Forward contracts	**₱18,072,855,988**	**103,865,520**	**275,992,573**	₱12,927,072,224	60,020,763	116,163,839
NDF	–	**293,676**	**5,670,060**	–	–	–
		₱433,523,619	**₱619,298,849**		₱65,009,362	₱146,483,530

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, 2018 and 2017 and receives semi-annual interests based on 6-month London Interbank Offered Rate (LIBOR).

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

	2018	2017
Derivative Assets		
Balance at beginning of year	**₱65,009,362**	₱60,448,286
Changes in fair value (Note 22)	**255,137,636**	4,561,076
Net addition (settlement)	**113,376,621**	–
Balance at end of year	**₱433,523,619**	₱65,009,362

	2018	2017
Derivative Liabilities		
Balance at beginning of year	**₱146,483,530**	₱84,658,456
Changes in fair value (Note 22)	**353,082,026**	61,456,849
Net addition (settlement)	**119,733,293**	368,225
Balance at end of year	**₱619,298,849**	₱146,483,530

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, 2018			December 31, 2017		
	Up to One Year	**Over One Year**	**Total**	Up to One Year	Over One Year	Total
Financial Assets						
Cash and other cash items	**₱1,685,366,097**	**₱–**	**₱1,685,366,097**	₱1,810,596,016	₱–	₱1,810,596,016
Due from BSP	**13,670,378,655**	**–**	**13,670,378,655**	15,127,322,201	–	15,127,322,201
Due from other banks	**13,090,490,156**	**–**	**13,090,490,156**	2,889,498,085	–	2,889,498,085
Interbank loans receivable and SPURA	**–**	**–**	**–**	4,956,434,833	–	4,956,434,833
Financial assets at FVPL:						
Government securities	**179,972,246**	**–**	**179,972,246**	1,242,776,816	–	1,242,776,816
Derivative assets	**433,523,619**	**–**	**433,523,619**	65,009,362	–	65,009,362
	613,495,865	**–**	**613,495,865**	1,307,786,178	–	1,307,786,178

(Forward)

	December 31, 2018			December 31, 2017		
	Up to One Year	Over One Year	Total	Up to One Year	Over One Year	Total
Financial assets at FVOCI						
Government debt securities	₱–	₱8,761,382	₱8,761,382	₱–	₱–	₱–
Private debt securities	–	4,265,432,375	4,265,432,375	–	–	–
Private equity securities:						
Quoted	–	–	–	–	–	–
Unquoted	–	15,383,600	15,383,600	–	–	–
	–	4,289,577,357	4,289,577,357	–	–	–
AFS investments:						
Government debt securities	–	–	–	–	3,053,052,753	3,053,052,753
Private debt securities	–	–	–	–	2,112,172,933	2,112,172,933
Private equity securities:						
Quoted	–	–	–	–	8,761,382	8,761,382
Unquoted	–	–	–	–	3,163,900	3,163,900
	–	–	–	–	5,177,150,968	5,177,150,968
Financial assets at amortized cost						
Government debt securities	–	12,319,604,567	12,319,604,567	–	–	–
Private debt securities	–	–	–	–	–	–
	–	12,319,604,567	12,319,604,567	–	–	–
HTM investments:						
Government debt securities	–	–	–	81,856,880	1,214,366,630	1,296,223,510
Private debt securities	–	–	–	–	1,520,000,000	1,520,000,000
	–	–	–	81,856,880	2,734,366,630	2,816,223,510
Loans and receivables:						
Loans:						
Corporate	12,452,585,107	11,554,638,524	24,007,223,631	11,754,374,649	12,066,530,280	23,820,904,929
Commercial	3,265,514,157	372,580,656	3,638,094,813	3,380,944,186	276,796,323	3,657,740,509
Consumer:						
Auto loans	1,866,808,374	34,055,746,848	35,922,555,222	1,725,560,668	32,342,643,915	34,068,204,583
Housing	15,467,426	11,278,853,343	11,294,320,769	16,752,080	7,693,801,282	7,710,553,362
Others	1,175,258,281	1,059,579,279	2,234,837,560	1,118,030,146	972,458,804	2,090,488,950
	18,775,633,345	58,321,398,650	77,097,031,995	17,995,661,729	53,352,230,604	71,347,892,333
Sales contract receivable:						
Corporate	–	6,927,757	6,927,757	777,485	62,468,456	63,245,941
Individual	672,170	33,924,748	34,596,919	1,961,908	1,511,344	3,473,252
	672,170	40,852,505	41,524,676	2,739,393	63,979,800	66,719,193
Accounts receivable:						
Corporate	264,273,462	490,511,648	754,785,109	187,220,888	587,434,336	774,655,224
Individual	234,555,468	–	234,555,468	155,639,320	–	155,639,320
	498,828,930	490,511,648	989,340,577	342,860,208	587,434,336	930,294,544
Accrued interest receivable	757,142,440	–	757,142,440	633,215,277	–	633,215,277
RCOCI	451,886	–	451,886	322,390	–	322,390
	20,032,728,771	58,852,762,804	78,885,491,575	18,974,798,997	54,003,644,740	72,978,443,737
	49,092,459,544	75,461,944,728	124,535,089,954	45,148,293,190	61,915,162,338	107,063,455,528
Nonfinancial Assets						
Property and equipment	–	287,270,381	287,270,381	–	351,562,499	351,562,499
Investment properties	–	1,338,292,042	1,314,999,327	–	1,314,999,327	1,314,999,327
Deferred tax assets	–	913,480,037	913,480,037	–	704,435,690	704,435,690
Other assets	153,737,477	674,107,279	705,968,458	121,339,775	584,628,683	705,968,458
	153,737,477	3,213,149,739	3,366,887,216	121,339,775	2,955,626,199	3,076,965,974
Less: Allowance for impairment and credit losses	–	–	2,483,321,981	–	–	1,568,061,892
Unearned discounts and other deferred income	–	–	22,788,412	–	–	22,074,246
Total Assets	₱49,246,197,020	₱78,675,094,468	₱125,395,866,777	₱45,269,632,965	₱64,870,788,537	₱108,550,285,364
Financial Liabilities						
Deposit liabilities:						
Demand	₱19,973,207,626	₱–	₱19,973,207,626	₱22,913,312,795	₱–	₱22,913,312,795
Savings	21,437,661,176	–	21,437,661,176	20,873,107,088	–	20,873,107,088
Time	30,389,135,510	13,971,969,492	44,361,105,002	25,015,009,730	11,531,800,635	36,546,810,365
	71,800,004,312	14,021,686,033	85,821,690,345	68,801,429,613	11,531,800,635	80,333,230,248
Financial liabilities at FVPL:						
Derivative liabilities	619,298,849	–	619,298,849	116,163,839	30,319,691	146,483,530
Bills payable	20,685,920,000	–	20,685,920,000	9,686,420,000	–	9,686,420,000
Manager's checks	544,534,813	–	544,534,813	869,817,972	–	869,817,972
Accrued interest payable	364,605,391	–	364,605,391	99,097,150	64,422,818	163,519,968
Outstanding acceptances	106,945,606	–	106,945,606	173,142,363	–	173,142,363
Accounts payable	685,741,257	–	685,741,257	355,955,241	–	355,955,241
Subordinated debt	–	1,990,956,784	1,990,956,784	–	1,990,180,683	1,990,180,683
Due to Treasurer of the Philippines	–	15,046,647	15,046,647	–	15,080,881	15,080,881
	23,007,045,917	2,006,003,430	25,013,049,347	11,300,596,565	2,100,004,073	13,400,600,638

(Forward)

	December 31, 2018			December 31, 2017		
	Up to One Year	**Over One Year**	**Total**	Up to One Year	Over One Year	Total
Nonfinancial Liabilities						
Income tax payable	**₱–**	**₱–**	**₱–**	₱53,293,007	₱–	₱53,293,007
Accrued taxes and other expenses	**1,028,947,632**	**–**	**1,028,947,632**	969,038,181	–	969,038,181
Other liabilities	**387,480,542**	**–**	**387,480,542**	338,215,240	364,763,166	702,978,406
	1,416,428,175	**–**	**1,416,428,175**	1,360,546,428	364,763,166	1,725,309,594
Total Liabilities	**₱96,223,478,403**	**₱15,977,972,922**	**₱112,201,451,325**	₱81,462,572,606	₱13,996,567,874	₱95,459,140,480

19. Capital Funds

The Bank's capital stock as of December 31, 2018 and 2017 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, 2018 and 2017, dividends in arrears on cumulative preferred shares amounted to ₱1.1 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.

Employee Stock Option Scheme (ESOS)
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, 2018 and 2017 (amounts in millions):

	2018	2017
Tier 1 capital	**₱11,357**	₱11,636
Tier 2 capital	**2,870**	2,736
Total Qualifying Capital	**14,226**	14,372
Risk-Weighted Assets	**₱98,930**	₱87,001
Tier 1 capital ratio	**11.48%**	13.37%
Total capital ratio	**14.38%**	16.52%

The composition of the qualifying capital is shown below:

	2018	2017
Tier 1 capital	**₱12,425**	₱12,716
Less: Required deductions	**1,068**	1,080
Net Tier 1 capital	**11,357**	11,636
Total Tier 2 capital	**2,736**	2,736
Total qualifying capital	**₱14,226**	₱14,372

The capital requirements as of December 31, 2018 and 2017 are shown below:

Capital requirements:		
Credit risk	**₱87,677**	₱78,050
Market risk	**2,430**	991
Operational risk	**8,823**	7,960
Total capital requirements	**₱98,930**	₱87,001

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.

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 statement of financial position 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, 2018 and 2017, 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 ₱25.1 million and ₱20.9 million as of December 31, 2018 and 2017, 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.

<u>Financial Performance</u>
The following basic ratios measure the financial performance of the Bank:

	2018	2017
Return on average equity	**5.72%**	8.00%
Return on average assets	**0.64%**	0.98%
Net interest margin	**4.11%**	4.97%

20. **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:

	2018	2017
Present value of the defined benefit obligation	**₱471,561,833**	₱564,892,020
Fair value of plan assets	**(243,188,029)**	(200,128,854)
Net pension liability	**₱228,373,804**	₱364,763,166

Changes in the present value of the defined benefit obligation as of December 31, 2018 and 2017 recognized in the statements of financial position follow:

	2018	2017
Balance at beginning of year	**₱564,892,020**	₱574,302,118
Current service cost	**79,270,514**	82,573,913
Interest cost	**31,367,809**	30,504,514
Remeasurement loss (gain):		
Actuarial gain arising from changes in financial assumptions	**(138,365,756)**	(12,622,141)
Actuarial loss (gain) arising from changes in demographic assumptions	**(14,369,966)**	6,300
Actuarial loss (gain) arising from experience adjustment	**7,379,304**	(35,466,973)
Benefits paid	**(58,612,092)**	(74,406,011)
Balance at end of year	**₱471,561,833**	₱564,892,020

Changes in fair value of plan assets are as follows:

	2018	2017
Balance at beginning of year	**₱200,128,854**	₱168,383,545
Contributions	**100,207,919**	100,965,574
Interest income	**10,430,404**	12,112,853
Remeasurements	**(8,967,056)**	(6,927,107)
Benefits paid	**(58,612,092)**	(74,406,011)
Balance at end of year	**₱243,188,029**	₱200,128,854

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

	2018	2017
Cash and cash equivalents	**₱100,812,825**	₱169,140,009
Accrued interest and other receivables	**36,556,853**	1,953,811
Debt instruments		
Government securities	**69,137,501**	172,621
Private securities	**19,447,552**	7,862,413
Equity instruments		
Manufacturing	**16,949,000**	17,000,000
Wholesale and Retail	**3,920,000**	4,000,000
Revaluation	**(3,635,702)**	–
Fair value of plan assets	**₱243,188,029**	₱200,128,854

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, 2018 and 2017 was approved by the Staff Committee.

The Bank expects to contribute ₱200.2 million to the plan in 2019.

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:

	2018	2017
Discount rate		
At January 1	**5.74%**	5.50%
At December 31	**7.35%**	5.74%
Future salary increase rate	**5.00%**	6.00%
Average remaining working life	**14**	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, 2018 and 2017, assuming all other assumptions were held constant.

	2018	2017
Increase in discount rate by 1%	**(₱38,973,584)**	(₱48,023,465)
Decrease in discount rate by 1%	**45,257,611**	55,839,305
Increase in salary increase rate by 1%	**49,249,922**	59,210,992
Decrease in salary increase rate by 1%	**(43,004,979)**	(51,823,416)

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

	2018	2017
Current service cost	**₱79,270,514**	₱82,573,913
Net interest cost	**20,937,405**	18,391,661
Expense recognized during the year	**₱100,207,919**	₱100,965,574

The Bank also has a defined contribution plan for certain employees. The pension expense recognized under this plan amounting to ₱26.0 million and ₱24.7 million for the years ended December 31, 2018 and 2017, respectively, is included in 'Compensation and fringe benefits' in the statements of income.

The average duration of the retirement liability is 19.17 years in 2018. Maturity analysis of the undiscounted benefit payments follow:

	Normal Retirement	Other than Normal Retirement	Total
Less than one year	₱5,025,671	₱21,698,267	₱26,723,938
More than one to five years	86,764,097	115,060,395	201,824,492
More than five to 10 years	133,732,526	206,588,136	340,320,662
More than 10 to 15 years	442,289,520	224,033,705	666,323,225
More than 15 to 20 years	430,725,010	196,787,641	627,512,651
More than 20 years	1,553,247,309	332,047,763	1,885,295,072

21. **Net Trading Gains (Losses)**

This account consists of:

	2018	2017
Financial instruments at FVPL:		
HFT investments (Note 6)	**₱28,971,897**	₱34,427,828
Derivatives (Note 17)	**(97,944,390)**	(56,895,773)
Financial assets at FVOCI	**(25,212,935)**	–
AFS investments (Note 7)	**–**	53,546,784
	(₱94,185,428)	₱31,078,839

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

This account consists of:

	2018	2017
Credit-related (Note 28)	**₱648,024,630**	₱563,467,007
Deposit-related	**73,519,843**	79,569,036
Others	**21,759,858**	16,164,168
	₱743,304,331	₱659,200,211

23. **Miscellaneous Income and Expense**

Miscellaneous income consists of:

	2018	2017
Recovery on written-off accounts	**₱68,242,912**	₱110,438,257
Trust fees (Note 28)	**42,516,209**	35,565,716
Others	**156,785,461**	89,466,536
	₱267,544,582	₱235,470,509

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

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.

24. Long-term Leases

The Bank leases the premises occupied by its head office and branches for periods ranging from 4 to 10 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 ₱244.5 million and ₱230.9 million for the years ended December 31, 2018 and 2017, respectively.

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

	2018	2017
Within one year	**₱197,282,928**	₱171,389,740
After one year but not more than five years	**619,837,231**	437,485,891
More than five years	**1,472,762,794**	1,667,831,374
	₱2,289,882,953	₱2,276,707,005

25. 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:

	2018	2017
Current:		
RCIT	**₱166,017,928**	₱225,998,601
Final	**40,916,243**	73,125,030
	(206,934,172)	299,123,631
Deferred	**(249,961,155)**	177,561,828
	(₱43,026,984)	₱476,685,459

The details of net deferred tax assets follow:

	2018	2017
Deferred tax asset on:		
Allowance for impairment and credit losses	**₱725,977,865**	₱469,003,127
Provisions and accruals	**192,760,213**	228,193,272
Retirement liability and unamortized past service cost	**133,243,127**	134,014,498
Accumulated depreciation on investment and chattel properties	**97,501,408**	82,208,965
Fair value loss on financial assets	**11,738,597**	21,669,750
Fair value gain on HFT investments	**26,464,926**	20,719,165
	1,187,686,136	955,808,777
Deferred tax liability on:		
Fair value of investment properties and chattel properties	**99,097,059**	₱93,984,681
Unrealized profit on assets sold	**76,468,616**	79,573,254
Unrealized foreign exchange gain	**98,640,424**	77,815,152
	274,206,099	251,373,087
	₱913,480,037	₱704,435,690

Provision for (benefit from) deferred income tax recognized directly against OCI for the years ended December 31, 2018 and 2017 amounted to ₱40.9 million and ₱12.3million, respectively.

As of December 31, 2018 and 2017, the Bank did not recognize deferred tax assets on certain allowance for impairment and credit losses amounting to ₱1.3 million, since the management believes that it is not probable that the related tax benefits will be realized in the future.

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

	2018	2017
Statutory income tax rate	**30.00%**	30.00%
Tax effects of:		
Nondeductible expenses	**21.09**	8.05
FCDU income before income tax	**(6.35)**	(3.35)
Tax-exempt income and income subjected to final tax	**(30.50)**	(2.45)
Movements in unrecognized deferred tax assets	**(20.32)**	(0.16)
Effective income tax rate	**(6.08%)**	32.09%

26. 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 27).

In connection with the trust business of the Bank, government securities with total face value and ₱ 82.0 million as of December 31, 2018 and 2017 are deposited with the BSP in compliance with the requirements of the General Banking Law.

27. 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:

	2018	2017
Forward exchange sold	**₱30,306,321,341**	₱12,880,283,367
Forward exchange bought	**30,106,291,394**	12,819,859,999
Trust department accounts (Note 26)	**6,900,367,554**	5,547,625,535
Interest rate swap payable	**3,951,600,000**	1,548,600,000
Interest rate swap receivable	**3,951,600,000**	1,548,600,000
Unused commercial letters of credit	**2,896,152,048**	2,608,124,804
Spot exchange bought	**2,827,578,000**	877,264,535
Spot exchange sold	**2,828,559,000**	877,182,261
Broker customer securities account	**2,418,092,238**	1,886,390,240
Inward bills for collection	**1,139,201,122**	340,124,621
Export letters of credit-confirmed	**929,377,790**	829,417,837
Outstanding guarantees	**704,449,371**	151,292,502
Deficiency claims receivable	**511,456,767**	488,057,531
Outward bills for collection	**44,468,519**	871,216
Late deposits and payments received	**13,011,364**	14,246,028
Items held as collateral	**569,852**	17,447
Items held for safekeeping	**19,496**	25,335

28. **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 ₱243.18 million and ₱200.1 million as of December 31, 2018 and 2017, 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 2018 and 2017. Deposits with the Bank amounted to ₱75.7 million and to ₱61.3 million as of December 31, 2018 and 2017, respectively. The Bank earned ₱17.94 million and ₱10.59 million of trust fees for the years ended December 31, 2018 and 2017, respectively.

Refer to Note 25 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:

	2018	2017
Salaries and other short-term benefits	**₱130,710,446**	₱126,261,472
Post-employment benefits	**21,731,642**	27,026,365
	₱152,442,088	₱153,287,837

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, 2018 and 2017, 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:

	2018	2017
Total outstanding DOSRI loans (in thousands)	**₱592,306**	₱778,607
Percent of DOSRI loans granted prior to effectivity of BSP Circular No. 423 to total loans	**0.00%**	0.45%
Percent of DOSRI loans granted after effectivity of BSP Circular No. 423 to total loans	**0.77%**	0.85%
Percent of DOSRI loans to total loans	**0.77%**	1.06%
Percent of unsecured DOSRI loans to total DOSRI loans	**–**	–
Percent of past due DOSRI loans to total DOSRI loans	**–**	–
Percent of nonperforming DOSRI loans to total DOSRI loans	**–**	–

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 ₱67.74 million and ₱56.26 million for the years ended December 31, 2018 and 2017, respectively, including accretion of interest from AR-PPI amounting to ₱32.6 million and ₱31.0 million in 2018 and 2017, respectively.

For the years ended December 31, 2018 and 2017, 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		
	2018	2017	**Nature, Terms and Conditions**
Parent Company			
Due from other banks	**₱25,750,991**	₱25,183,374	Foreign currency demand deposit accounts, non-interest bearing and no impairment
Accounts receivable	**183,840**	147,840	Receivables for various administrative expenses, due on demand, non-interest bearing, unsecured and no impairment
Interest income	**17,195,260**	26,879,337	Interest income from interbank loans receivable, interest rate swaps and due from other banks
Bills payable	**17,035,920,000**	9,686,420,000	Short-term foreign currency borrowings subject to annual fixed interest rate ranging from 3.32% to 3.85% and 0.15% to 2.12% and with maturity terms from 99 to 352 and 5 to 186 days in December 31, 2018 and 2017, respectively, unsecured
Net availments	**7,349,500,000**	7,097,002,400	
Financial liabilities at FVPL	**47,675,824**	61,585,564	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	**126,022,885**	4,058,200	Accrued interest expense on bills payable and interest rate swaps
Subordinated Debt	**1,990,956,784**	1,990,180,683	Direct, unconditional, unsecured and subordinated obligation of the Bank
Interest expense	**578,918,978**	147,724,103	Interest expense on interest rate swaps, bills payable, subordinated debt and deposit liabilities
Other related parties			
Due from other banks	**39,077,980**	57,015,541	Various foreign currency demand deposit accounts, non-interest bearing and no impairment
Loans and receivables	**84,000,000**	54,500,000	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	**84,000,000**	54,500,000	
Settlements	**54,500,000**	24,500,000	

(Forward)

	Outstanding Balance /Volume		
	2018	2017	**Nature, Terms and Conditions**
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	
Accounts receivable	**604,368,921**	639,083,078	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
Accrued interest receivable	**3,531,589**	2,365,057	Accrued interest income on accounts receivable
Interest income	**67,740,949**	96,205,461	Net interest income from interbank loans receivable, loans and receivables, interest rate swaps and due from other banks
Bills payable	–	–	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)	
Financial liabilities at FVPL	**25,933,817**	73,227,840	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	**23,797,928**	22,461,565	Accrued interest expense on interest rate swaps
Interest expense	**44,812,052**	73,233,047	Interest expense on interest rate swaps, bills payable and deposit liabilities
Service charges, fees and commissions	**9,560,949**	11,558,469	Transaction fees from various services rendered
Retirement fund of the Bank			
Deposit with the Bank	**75,768,472**	61,346,481	This deposit earns annual fixed interest rates ranging from 0.25% to 3.25%.
Interest income	**2,800,413**	1,804,447	

Deposit liabilities to Parent Company amounted to ₱1.05 billion and ₱2.2 billion as of December 31, 2018 and 2017, respectively. Deposit liabilities to other related parties amounted to ₱1.2 billion and ₱1.4 million as of December 31, 2018 and 2017, respectively.

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

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 ₱5.3 million and ₱11.2 million for the years ended December 31, 2018 and 2017, 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 2018 and 2017, the Bank earned service fees and commissions amounting to ₱3.9 million and ₱0.6 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 2018 and 2017, interest expense on subordinated loans included in 'Interest expense on bills payable and other borrowings' amounted to ₱112.7 million and ₱27.1 million, respectively.

29. **Offsetting of Financial Assets and Liabilities**

The amendments to PFRS 7 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, 2018						
				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 [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative assets (Note 17)	**₱433,523**	**₱–**	**₱433,523**	**₱–**	**₱–**	**₱433,523**
Total	**₱433,523**	**₱–**	**₱433,523**	**₱–**	**₱**	**₱433,523**

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 [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
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 Liabilities

December 31, 2018						
				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 [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities (Note 17)	**₱619,299**	**₱–**	**₱619,299**	**₱–**	**₱–**	**₱619,299**
Total	**₱619,299**	**₱–**	**₱619,299**	**₱–**	**₱–**	**₱619,299**

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 [a-b]	Financial Instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 17)	₱146,484	₱–	₱146,484	₱–	₱–	₱146,484
Total	₱146,484	₱–	₱146,484	₱–	₱–	₱146,484

30. Notes to Statements of Cash Flows

Additions to property and equipment still unpaid as of December 31, 2018 and 2017 amounted to nil and ₱6.1 million, respectively.

Non-cash additions to investment properties and other properties acquired in settlement of loans amounted to ₱163.9 million and ₱726.6 million, and ₱667.38 million and ₱615.8 million, respectively, for the years ended December 31, 2018 and 2017, respectively.

Changes in liabilities arising from financing activities

	January 1, 2018	Cash flows	Changes on fair values	Others	December 31, 2018
Liabilities from financing activities					
Bills payable	**₱9,686,420,000**	**₱10,999,500,000**	**₱-**	**₱-**	**₱20,685,920,000**
Subordinated debt	**1,990,180,683**	**–**	**-**	**-**	**1,990,956,784**
	₱4,975,977,600	**₱6,700,623,083**	**₱-**	**₱-**	**₱22,676,876,784**

31. 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, 2018, GRT, DST and other taxes and licenses consist of the following:

Gross receipts tax	₱436,922,935
Documentary stamp tax	343,395,681
License and permit fees	22,083,666
Real estate taxes	2,231,884
Registration fees	37,500
	₱804,671,666

Withholding Taxes
Details of withholding taxes for the year ended December 31, 2018 are as follows:

	Total Amount Remitted	Balance as at December 31
Withholding taxes on compensation and benefits	₱273,916,120	₱16,295,460
Expanded withholding taxes	371,016,409	14,544,550
Final withholding taxes	297,889,370	34,858,753
Final withholding VAT	1,523,561	164,549
	₱944,345,460	₱65,863,312

Tax Assessments and Cases
The Bank has no outstanding assessments from the BIR as of December 31, 2018.