



2017 Annual Report

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Vision, Mission & Core Values

OUR VISION

Sterling Bank of Asia, the Bank with a Heart, is the new standard for future generations of bankers, driven by integrity and a deliberate will for excellence—a legacy!

OUR MISSION

We are committed to exceed customer service expectations. We will actively identify and innovatively respond to their evolving needs.

We are propelled by competent and team-oriented professionals in a respectful, caring, and nurturing environment where everyone can maximize his potential.

We will be responsible stewards of the resources entrusted to us, and we will share the resulting benefits with society.

OUR CORE VALUES

We will manifest the Sterling Bank of Asia Philosophy through consistently demonstrating and living the following core values:

SERVICE EXCELLENCE

The commitment to continuously challenge ourselves to exceed expectations of our customers by having the genuine concern and interest in their needs and circumstances, and serving them with a deep sense of responsibility.

PROFESSIONALISM

The dedication to treat all people with respect, fairness, and compassion while continually pursuing the highest levels of knowledge, skills, and expertise.

SOCIAL CONSCIOUSNESS

The resolve to ensure optimum value on the resources entrusted to us and to share this value with those we serve.



Sterling
Bank of Asia
A Savings Bank

**ONE BEAT
ONE DECADE**
of Heartfelt Service

10

YEARS

About The Bank

Sterling Bank of Asia aims to raise the bar in the banking industry by providing its clients with excellent and personalized service. True to its commitment of being a socially responsible bank, Sterling Bank of Asia has endeavored to create a positive impact to the clients it serves, business partners, the community it belongs to and its employees that provide the backbone of its service delivery, thus creating an ecosystem nurtured by collaborative spirit.

Established in March 2007, it has positioned itself as one of the country's leading savings banks with presence in key cities nationwide. To mark its 10th year in the industry, it expanded its reach in 2017 as it opened two branches in the Bicol region, one in Palawan, one in Visayas and another in Metro Manila bringing the total branch network to 47 by year-end.

The Bank offers an array of deposits, loans, investment, asset management, and other financial products to service large corporations, small and medium enterprises, as well as retail customers. Products and services are delivered via the Bank's five business groups namely Retail Banking, Commercial Lending, Consumer Lending, Treasury, and Trust.

Sterling Bank of Asia's Retail Banking segment provides various deposit products catering to different market segments as well as cash management solutions for business owners, offering value-added solutions to address enterprise needs and requirements. Aside from the usual peso savings accounts available for both individual and corporate clients, deposit variants include the Neo Savings account for children and the Bayani OFW Savings account catering to our OFW market. The Bank also offers checking accounts, and US Dollar, Yuan, and other third currency denominated savings accounts. For clients who want to maximize earning potential, the Bank offers short-term, medium-term and long-term time deposit products with its Prima and Maxima peso and dollar deposit placements. Meanwhile, the Bank's Optima Business Banking solution provides enterprises with a payroll system, check warehousing, check writing facilities, online banking services, and a financial system that can take care of a company's disbursements, collections and investment transactions.

The Bank's Commercial Lending segment provides financing requirements of business enterprises. These include credit facilities to fund working capital requirements in the form of revolving lines which are provided either on secured or clean basis, trade, and receivable financing. Term loans are also available to finance capital expenditures and business expansions. Consistent with the value of service excellence, the Bank's relationship managers provide clients with customized credit packages designed to meet their financing needs, mindful that the Bank is a partner in the growth and development of businesses that drive the economy.

Consumer Lending, meanwhile, caters to financing requirements of individuals to manage their finances, support asset acquisitions, and investments through its mortgage loans, auto loans, personal and salary loans. The Consumer Lending segment continues to be a growth area for the Bank, riding on the country's increased consumer spending and young population.

For asset and wealth management, the Bank's Treasury and Trust segments offer a wide range of products and services to address investment needs, from fixed income securities including government and corporate bonds to portfolio investments through the Trust UITF, Investment Management Accounts, and other Trust funds.

In this technology-driven age, the ability to control funds online is as significant to both business owners and individual clients. Thus, Sterling Bank Online, the Bank's internet banking facility, gives clients digital access to their accounts anytime, anywhere.

Against the backdrop of intense market competition in the banking industry and the growing demands of customers, Sterling Bank of Asia has consistently delivered exceptional, relationship-based service.

Its highly skilled and professional staff remains focused on making the customers the center of its business, ensuring that they are banking to a different beat.

Now on its 10th year, Sterling Bank of Asia continues to uphold its Mission and Vision for the future generation of bankers by delivering a legacy of exceptional service.



Sterling Bank of Asia
A Savings Bank



Sterling Bank of Asia
A Savings Bank



Message from the Chairman

In 2017, the Philippines' strong macroeconomic fundamentals provided the backdrop for the country's continued growth. Healthy domestic demand, steady investment and a resilient services sector served as solid pillars for the country's expansion. A perennial high performer in Asia, the Philippines finished the year with an output of 6.5%, third best in the region.

The central bank remained accommodative in 2017, giving added tailwinds for growth. The Bangko Sentral ng Pilipinas (BSP) held the policy rate steady at 3% with borrowing and lending rates at 2.5% and 3.5% respectively. Full year inflation stood at 3.2%, well within the central bank's target.

International credit rating agencies maintained the Philippines' investment grade status, citing the country's stable banking industry and continued inflows from foreign direct investments. Furthermore, the government's focus on infrastructure spending will sustain growth over the medium term.

Sterling Bank of Asia has provided record performance in 2017 to keep pace with the Philippines' performing economy. We made strong headways on our strategy to bring about significant operating performance and cost efficiencies. Net interest margin over operating expense improved to PhP19 million per month, versus 2016's PhP12 million per month resulting in the doubling of last year's net income.

As we commemorate the Bank's 10 years in the highly competitive Philippine banking industry, it is motivating to see how a decade of commitment and passion to deliver the highest standards of customer service has brought the Bank to where it is today.

Sterling Bank of Asia formally started its operations in 2007, amidst a global financial crisis. Undaunted, we ended our first year with nine branches, and proudly doubled our branch network the following year. The Bank's innovative products reflected our resolve to serve our customers. Sterling Bank of Asia was the first bank in the Philippines to launch debit and prepaid cards with EMV chip in 2008. We have a complete line of financial and trade facilities for small and medium enterprises. Our Bayani OFW Savings Account was created to promote financial literacy and encourage saving among our modern day heroes. Truly, the last 10 years have been marked with milestones focused on the Bank's mission to address the evolving needs of our customers.

In 2018, we commit to deliver the best banking experience to our customers. We strive to innovate and adapt to our clients' evolving needs. Our culture of service extends to our associates and stakeholders who are our invaluable partners in growth. A decade's worth of gratitude to our customers — thank you for your trust and confidence in Sterling Bank of Asia.



Ruben C. Tiu
Chairman of the Board

Report to Stockholders & Stakeholders



Sterling Bank of Asia marked its 10th year anniversary in 2017, a milestone made possible through the unwavering support of our stockholders, customers, business partners, and employees. Looking back at the past 10 years, we take pride in the progress that we have achieved for the Bank — its reach wider with a menu of financial products and services designed to address the needs of every market we serve.

We are happy to report that 2017 ended with a net income of PhP176.572 million, an impressive 100.13% increase equivalent to PhP88.342 million compared to 2016. The growth was primarily driven by the increase in the interest income on loans and receivables by PhP359.637 million. We have set up lending centers in Visayas and Mindanao, as well as additional lending desks in Cavite and Naga that helped contribute to the 38.55% growth in the Consumer Lending portfolio. We continue to post a double digit increase in auto loans as new car models and affordable financing packages are available in the market. Real estate loans likewise posted a significant increase.

Commercial Lending's loan portfolio, on the other hand, increased to PhP14.147 billion in 2017 or a growth of 22.37%, driven by an expanded client base and an increase in bookings from new accounts as we synergize our efforts to capture retail banking clients in need of financing and credit facility.

Another milestone we achieved this year is the expansion of the Retail Banking business, with five newly opened branches in Puerto Princesa, Boracay, Legaspi and Naga in Bicol, and MacArthur Caloocan, bringing the total number of branches to 47, strategically located throughout the country. Deposit liabilities increased by 17% due to increase in low cost deposits as we continue to promote products for financial inclusion, such as the Bayani OFW Savings designed for our country's new-generation heroes, and NEO Savings Account intended for children.

Despite a challenging fixed income market and the Philippines' deficit on both budget and trade the past year, Treasury still managed to contribute PhP235.058 million in interest and realized trading income to the Bank's bottom line. It also generated PhP2.986 billion in deposits, posting a 37.72% increase from previous year. The adoption of Treasury Guava Management System provided flexibility and improved treasury dealings, risk management and control as well as the overall management of the treasury process.

Assets Under Management of the Trust Group increased year-on-year, ending at PhP7932 billion in 2017 from PhP6.138 billion in 2016 despite a challenging year with high-interest rate scenario and market volatility. The Trust Group, on the other hand, diversified its portfolio and maintained investments in highly tradable and short-term securities. With system updates in the works to better serve clients, the Trust Group confidently aims higher targets for next year.

The continued investment in the IT infrastructure will keep us abreast of the developments in digital technology. Clients can now enjoy banking services anytime and anywhere with the Bank's Retail Internet Banking, Sterling Bank Online, upgraded to a more secure environment in 2017. We are also moving forward with the enhancement of our Corporate Internet Banking and our Mobile Banking facilities to expand our electronic channels. We have also completed the full migration to EMV technology as part of our regulatory compliance with Bangko Sentral ng Pilipinas. Enhancements and upgrades are continuously being done in order to provide full support to business units and enhance customer experience.

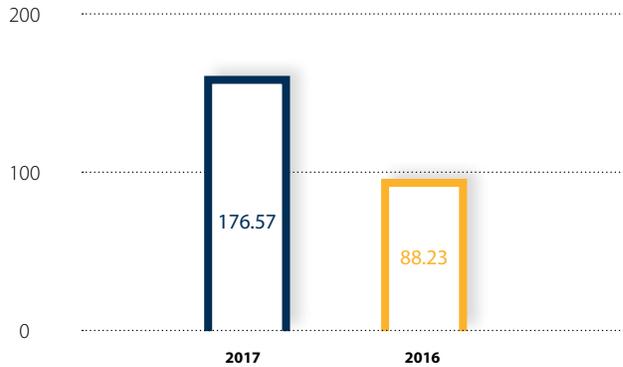
Our exceptional performance this year has been recognized by Bangko Sentral ng Pilipinas. For five straight years, we have been awarded the Outstanding PhilPaSS Participant Servicing Customer ePayments (Thrift Bank Category) award, a recognition that validates our remarkable performance in terms of volume, frequency, and the value of remittance and customer ePayments transactions sent to PhilPaSS for processing and settlement. In addition, we also received the Gold Hall of Fame in the same category, given exclusively for institutional partners who have been awarded the Outstanding PhilPass Award for three consecutive years. BSP also awarded Sterling Bank of Asia the Pagtugon Award for Consumer Protection (Thrift Bank Category), given to financial institutions that have excelled in addressing client issues and concerns.

We at Sterling Bank of Asia are grateful to our regulators, clients, stockholders, the Board of Directors, management, and staff for sharing our vision of integrity and excellence as we strengthen our position in the banking industry. The year 2017 may have been challenging, but Sterling Bank of Asia pushed forward and ended our 10th year on a high note. As we begin our journey to another decade, we are confident that Sterling Bank of Asia will continue to ride the momentum of growth and consistently deliver beyond what is expected.

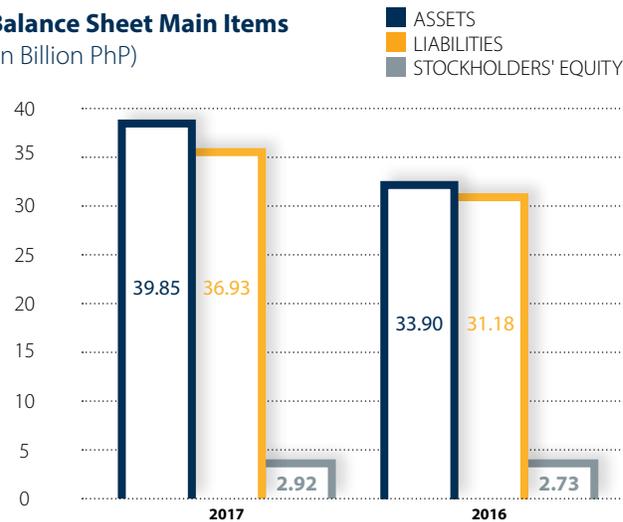


Cecilio D. San Pedro
President & CEO

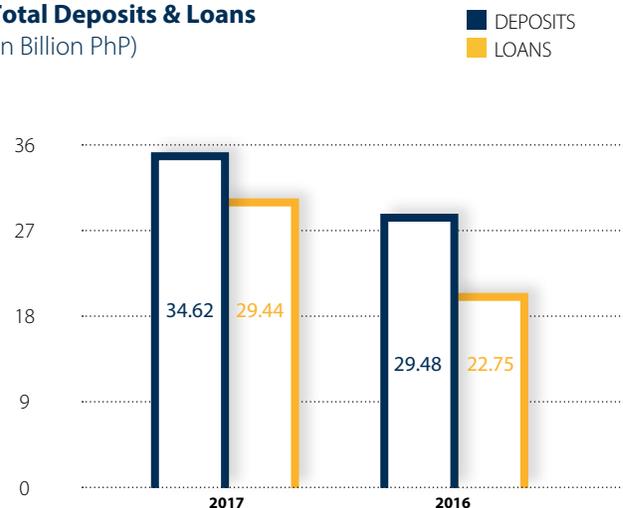
Net Income
(in Million PhP)



Balance Sheet Main Items
(in Billion PhP)



Total Deposits & Loans
(in Billion PhP)



RESULTS OF OPERATIONS

The Bank posted a net income of PhP176.572 million in 2017, an increase of 100.13% or PhP88.342 million compared to PhP88.230 million in 2016. Net revenue from funds increased by PhP270.210 million or 20.58% to PhP1.583 billion in 2017, basically due to the increase in the interest income on loans and receivables by PhP359.637 million.

Interest expense increased by PhP90.993 million due to higher volume of Deposit liabilities and increase of Unsecured Subordinated debt.

Fee-based income of PhP222.078 million was 19.24% higher than the PhP186.240 million in 2016 due to trading gains on securities, service fees on branch transactions, and loan-related fees.

With the growth of the organization, total operating expenses increased by PhP166.946 million or 13.22% from PhP1.263 billion in 2016 to PhP1.430 billion in 2017.



Highlights

Financial Highlights

2017 vs. 2016

FINANCIAL POSITION

Sterling Bank of Asia's total resources at the end of 2017 stood at PhP39.845 billion, posting an increase of PhP5.941 billion or 17.52% from PhP33.904 billion as of December 31, 2016. The said increase was primarily brought about by the remarkable growth in loan portfolio by 29.44% or PhP6.697 billion to end at PhP29.443 billion. Driving the loan growth is the consumer lending segment with its flagship auto loan product. The Philippine automotive market has been expanding on the back of increased consumer spending. This has supported sustained growth in the automotive financing segment despite tax reform concerns. Cash and Due from Banks likewise increased by 35.54% or PhP1.962 billion, while Interbank Loans Receivable and Investment Securities went down by PhP1.903 billion and PhP894 million, respectively.

Total liabilities went up by PhP5.750 billion or 18.44% from PhP31.178 billion as of the end of 2016 to PhP36.928 billion as of December 31, 2017, the bulk of which came from Deposit Liabilities. As the branch network expanded from 42 branches in 2016 to 47 branches in 2017, Total Deposits comprised of time deposit placements, demand, and

savings deposits grew from PhP29.483 billion in 2016 to PhP34.623 billion in 2017. The Bank registered modest success in developing a favorable deposit mix, with low-cost and high-cost deposits amounting to PhP12.145 billion and PhP22.477 billion, respectively, by end of 2017, thereby effectively managing its weighted cost of funds.

On July 18, 2017, the Bank issued an Unsecured Subordinated Debt of PhP1.0 billion to strengthen its capital base and support its continued expansion. Other liabilities significantly increased by PhP146 million largely due to the volume of ShopNPay cards, which grew by PhP96 million from PhP314 million in 2016 to PhP410 million in 2017.

Stockholders' equity increased by PhP191.989 million or 7.05% to PhP2.917 billion due to the recorded PhP176.572 million net income coupled with PhP15.417 million increase in other equity reserves in 2017. The return on average equity went up from 3.37% in 2016 to 6.26% in 2017. The Bank's Basel 1 Capital Adequacy Ratio stood at 12.46% in 2017 compared to 12.37% in 2016, which are both significantly higher than the regulatory requirement of 10% set by the BSP.

	2017	2016
Profitability		
Total Net Interest Income	1,582,891,757	1,312,681,442
Total Non-Interest Income	222,077,929	186,240,266
Total Non-Interest Expenses	1,429,588,550	1,262,642,224
Pre-provision Profit	375,381,136	236,279,484
Allowance for Credit Losses	88,838,080	52,638,700
Net Income	176,572,090	88,229,667
Selected Balance Sheet Data		
Liquid Assets	8,095,556,612	8,378,903,249
Gross Loans	29,962,134,701	23,235,110,993
Total Assets	39,845,392,952	33,903,849,408
Deposits	34,622,708,800	29,483,028,640
Total Equity	2,917,054,331	2,725,065,676
Selected Ratios		
Return on Equity	6.26%	3.37%
Return on Assets	0.48%	0.27%
Tier 1 Capital Ratio	7.65%	8.53%
Capital Adequacy Ratio	12.46%	12.37%

Operational Highlights

RETAIL BANKING

The Retail Banking Group (RBG) expanded its network in 2017 by opening five new branches in the key areas of Puerto Princesa in Palawan, Boracay in Aklan, Legaspi and Naga cities in Bicol, and Caloocan MacArthur in Manila. The Bank now has a total of 47 branches strategically located across the country. All branches of Sterling Bank of Asia are online, allowing customers to do their transactions at any branch where it is most convenient for them.

2017 proved to be another great year for the Bank's retail banking business in terms of deposit generation. Peso low-cost funds grew by 17.95% while peso high cost funds and foreign currency deposits increased by 14.92% and 27.17%, respectively. Part of this growth is attributed to the group's heightened focus on increasing the deposit base to support the Bank's loan generation activities. The continuous implementation of RBG's sales management process resulted in the vast improvement of RBG's profitability.

The diverse products offered allowed the Bank to cater to specific customer segments. At the forefront are the Bayani OFW Savings account for the country's new generation heroes, and the Optima account for SME clients looking for business solutions that will enhance their operations. The Neo Savings Account, on the other hand, encourages children to save at an early age.

Product development efforts are deep-seated to cater to the unbanked and to support the Bank's financial inclusion advocacy while at the same time keeping abreast with the digital revolution in banking. The Retail Banking Group in 2018 aims to enhance and develop

the Corporate and Retail Internet Banking, including the Mobile Banking, and continue to look for better and innovative solutions to address the demands of its individual and corporate clients.

COMMERCIAL LENDING

In 2017, Commercial Lending Group experienced 22.37% growth or an increase of PhP2.586 billion, bringing its total portfolio to PhP14.147 billion. The group accounts for 48% of the Bank's total loan portfolio, contributing 38.54% to the Bank's interest income on loans and receivables. The growth was driven by a combination of new clients needing financial assistance for business expansion and increased volume from the group's existing client base. Given the evolving needs and requirements of its clients, the group provided valuable support and flexibility to meet such demands.

Commercial Lending Group primarily caters to small and medium enterprises offering short-term and long-term credit facilities. The group continues to reach a wider customer base by maximizing various touch points and capitalizing on Retail Banking Group's clients to provide financing to qualified entities. With the country's growing economy, Commercial Lending Group actively seeks opportunities for growth and further improvement of the Bank's loan portfolio while maintaining quality assets.

For 2018, deepening relationships and developing opportunities from new and existing clients will continue to be the main focus. The group will also utilize IT-related initiatives such as the Corporate Internet Banking to enhance customer experience and also improve and streamline back office operations.







CONSUMER LENDING

Consumer Lending Group (CLG) ended the year with a remarkable 38.55% growth in its portfolio, sustaining double digit growth as the economy continues to expand. The group ended 2017 with PhP15.037 billion, representing 52% of the Bank's total loan portfolio. This translates to a 59.56% share in total interest income on loans and receivables, greatly contributing to the overall financial performance of the Bank.

For secured loans, automotive financing remains to be the main growth driver of the Bank's consumer lending business. The group expanded its presence with the addition of two desk offices in Southern Luzon particularly in Cavite and Naga bringing a total of three lending centers and 16 lending desks situated across the region. Similarly, real estate loans expanded its operations, targeting borrowers in the areas of Visayas and Mindanao in 2017. These efforts enabled the Bank to capture more clients and further increase its portfolio.

CLG's unsecured loans, namely, Personal and Salary loans, continue to complement the group's portfolio, offering the products to qualified borrowers based on their credit worthiness.

Consumer Lending Group is all geared up for 2018. The focus is to reach out to a wider clientele by beefing up its SME lending through truck loans, establishing a lending desk in Palawan to expand coverage in growth areas, and upgrading the Loan Origination System (LOS) to automate and streamline lending process. As the industry moves toward financial technology in providing services, Consumer Lending is likewise innovating by tapping other distribution channels like online and mobile banking to make our financial services more accessible to customers.

TREASURY

It was a challenging 2017 for the fixed income market as the US, with its unemployment rate improving to 4.1% and inflation reaching its 2% target, continued

its path to normalization by beginning its program to reduce the US Fed's balance sheet from USD4.5 trillion to USD2.5 trillion. The US also raised the Fed Funds' target three times from 0.50/0.75% at the beginning of the year, to 1.25/1.50% by the end of the year. It also put in place its tax reform bill, adding stimulus to an already improving economy. On the local front, the Philippines' twin deficits, budget and trade, led to higher interest rates and a weaker local currency. The five-year Philippine bond yield rose from 3.876% at the start of the year to 4.744% at the end of the year.

The Philippine Peso weakened from last year's close at 49.72 to 51.85 on October 27, before recovering to close the year at 49.93, as the Philippines passed its own tax reform bill. The unfavorable interest rate environment led Treasury to flatten its PhP bond trading positions and lighten its USD portfolio. In spite of these challenges, Treasury still managed to contribute PhP235.058 million in both interest and realized trading income to the Bank's bottom line, and FX income of PhP20.8 million. Treasury was also able to generate PhP2.986 billion in deposits, a 37.72% increase from last year.

The Bangko Sentral ng Pilipinas (BSP) interest Rate Corridor policy allowed the Treasury Group to further improve its liquidity position management as net interest income grew by 9.71%. The policy enabled Treasury to efficiently deploy its excess liquidity into BSP's various investment facilities.

2018 is another challenging year as the US Fed is projected to raise its rates three more times, while Philippine inflation is expected to rise as prices adjust to higher consumption taxes and a weaker peso. The Treasury Group maintains flexible positions in liquid bonds to allow it to go in and out of the market and take advantage of market blips that will lead to trading income. The higher bond yields and increase in available corporate bonds are set to enable Treasury to offer more investment alternatives to its clients. The country's increasing trade numbers, on the other hand, will allow Treasury to service more client requirements for foreign exchange.



TRUST

The Trust Group posted a growth in Assets Under Management (AUM) of PhP1.794 billion for 2017, posting a 29.23% increase year-on-year. Its 2017 books closed with a total of PhP7.932 billion in AUM, up from its 2016 year-end figure of PhP6.138 billion.

As it continues to focus on servicing the investment and fund management requirements of its clients, the Trust Group maintains strong and strategic alliances with our distribution channels and investment counterparts.

Net income after tax (NIAT) of the Trust Group went up by 96.5% in 2017 compared to 2016 figures.

In 2017, fund management encountered major challenges such as increasing interest rate scenario and market volatility. These were managed by the Trust Group by diversifying its portfolio, keeping investments in highly tradable and short-term securities.

The Trust Group posted a 17.2% improvement in its 2017 revenue compared to 2016 figures.

The target AUM for 2018 is PhP10 billion, with improved bottom line figures. The Trust Group projects a 25% growth in AUM and a 30% increase in net revenues for 2018. Its system will be updated in 2018 for better efficiency in processing and servicing of clients.

HUMAN RESOURCES

The Human Resources Group (HRG) implemented several programs that were aimed at improving the

services provided by the Bank through managing its most important asset, the employees.

The Bank’s continued growth has led HRG to address the growing demand and requirements of business and support units. Recruitment hired a total of 222 new employees (83 officers and 139 staff members) utilizing strong relationships with recruitment partners such as schools, universities, and executive search firms. It also conducted an open house activity wherein hundreds of applicants were invited to undergo the Bank’s sourcing process. By yearend, the Bank had a total of 837 employees comprised of 416 officers and 421 staff.

The Compensation and Benefits Unit continued to assess the Bank’s benefits package to keep it at par with, if not better than, industry practice.

Several employee engagement programs were implemented to encourage promotion of health and wellness within the organization. These activities include health awareness campaigns, blood-letting, and vaccination programs. The annual sportsfest activity is also part of employee engagement, promoting camaraderie and sportsmanship among the different units of the Bank.

HRG spearheaded the Corporate Social Responsibility activities of the Bank. For 2017, the health and educational advocacies were fulfilled through the donation of medical equipment to St. Martin de Porres Charity Hospital in San Juan and participation in the Department of Education’s Brigada Eskwela Project by repainting classrooms and donating new chairs to three major public schools in the country.





In 2017, Center for Learning (CFL) institutionalized the bank-wide Training Plan, which constitutes competency building programs for employees of all levels from staff to officers, on-boarding and supplemental trainings targeted to build the four areas of competence: Banking Know-How, Functional Know-How, Leadership, and Service Excellence.

The Training Plan serves as the Bank's framework on talent management, succession planning, and employee retention. A continuing education program was likewise set in motion when directors and senior management attended trainings on Corporate Governance, IT Governance, Cybersecurity, Fraud Risk Management, Evaluating and Testing Anti-Fraud Controls, Related Party Transactions, Trust Rating System, Industrial Relations, and Prevention of Labor Cases.

HRG's Center for Learning remains at the forefront of ensuring that all employees including management are competent and equipped in their respective roles. Apart from the established proficiency courses on sales and customer service, CFL also conducted technical and systems training for various groups of the Bank. The tighter regulatory requirements on banks and the heightened awareness on risks also encouraged the Bank to focus on training its employees on operational risks, internal controls, data privacy and other BSP-related regulations. Lastly, development programs such as the Management Training Program, Branch Officers Development Program,

and Leadership Programs were continuously conducted to provide qualified employees opportunities for growth.

INFORMATION TECHNOLOGY

With the fast technology swing and security challenges in the banking industry, the Information Technology Group (ITG) has evolved to adapt and embrace technology transformation. Delivering new, enhanced, secure, and reliable system products was the group's main objective and commitment to the Bank.

In 2017, the Bank made heavy investments to keep abreast of the digital world and showcase its capability to compete in the market, resulting in the delivery of key business automated systems.

Part of the ITG's notable success is the completion of Retail Internet Banking, which allows retail customers on the move to enjoy secure internet banking 24/7 using mobile applications and internet browsers on their mobile phones. To provide faster and efficient service on clearing checks, the ITG completed the Check Image Clearing System, which allows the Bank to process check images instead of physical checks. The Treasury Systems were completed, with more robust and enhanced features. The full migration to Europay Mastercard Visa (EMV) technology was also completed in 2017 to secure all deployed Automated Teller Machines (ATM). These projects proved the ITG's commitment to remain customer-focused through faster turnaround time in serving its stakeholders.

Another major accomplishment for the ITG is the enhancement of the Loans Origination System (LOS) and Human Resources Information System (HRIS). With an upgraded workflow and imaging system, the new LOS increased the number of applications processed and efficiently provided control and monitoring. Added to the HRIS were new modules such as the automation of attendance monitoring as well as an Employee Service feature allowing the paperless filing of an employee's leave, official business, and overtime.

With its investments allocation, the Bank continues to transform the technology landscape with its Core Banking Systems, ATM, and IT Security and Infrastructure, scheduled for implementation in the succeeding years. These include Litigation and Debt Collection, Phase 2 Retail Internet and Mobile Banking, New Trust Management System, Email and Collaboration System, and Phase 2 Financial Reporting Package, among others.

These IT investments shall ensure less interruption and provide full support to the business. The IT Infrastructure implemented a reliable server hardware support, enabling faster recovery time for Core Banking and ATM systems. With its commitment to deliver the availability of the mission critical system, the ITG continues to enhance, upgrade, and refresh the system to support the Bank in achieving industry leadership in customer service and efficiency.

OPERATIONS

Service excellence remained to be the focal point of the Operations Group. In collaboration with various line units and ITG, the team aimed to create a positive

customer experience by streamlining processes, enhancing business models, and adopting technological and system improvements.

The Operations Group strengthened its Visayas and Mindanao Lending Centers to support its tremendous growth, especially in Consumer Lending. System upgrades in the field of Treasury, Loans, and other core products were implemented to heighten productivity and efficiency. The Operations Group also partnered with SWIFT and correspondent banks to create value and improve the delivery of services in the areas of trade finance and remittance. The team continues to invest in training and development to arm its associates with the required technical skills and leadership attributes necessary for an effective and responsive delivery of services. As the service is improved across the organization, there is increased consciousness of the avowed duty to process transactions within the ambit of established regulations, internal control, and intensified risk assessment in partnership with Risk Management, Compliance and Audit Groups.

Moreover, 2017 marked the Bank's fifth consecutive year of recognition as Outstanding PhilPaSS Participant Servicing Customer ePayments (Thrift Bank Category). The Bank was also given the newly launched Gold Hall of Fame Award for the same category—a recognition given to an institutional partner who has received the Outstanding PhilPaSS Participant Servicing Customer ePayments Award for three consecutive years.





Awards & Recognition



Sterling Bank of Asia receives 3 awards from BSP, hailed Gold Hall of Fame Awardee

Sterling Bank of Asia adds a gold feather to its cap as Bangko Sentral ng Pilipinas (BSP) proclaimed the Bank as this year's Gold Hall of Fame Awardee for Outstanding PhilPaSS Participant Servicing Customer ePayments in the Thrift Bank category at the annual Awards Ceremony and Appreciation Lunch for BSP Stakeholders last July 11, 2017.

Sterling Bank of Asia has been a consistent recipient of the prestigious Philippine Payments and Settlements System (PhilPaSS) Award since 2013. PhilPaSS is a real-time gross settlement system maintained by BSP, which allows for simultaneous and instant settlement of payments that are irrevocable and final. The ultimate goal is to have a highly efficient financial market.

"On behalf of the whole Sterling Bank of Asia family, thank you for this great honor," said the Bank's President and CEO Cecilio D. San Pedro after receiving the award from Nestor A. Espenilla, Chairman of the Monetary

Board and Governor of the BSP, and Juan D. De Zuniga, Jr., Monetary Board Member and Chairman of the Board of Judges.

As evidence of Sterling Bank of Asia's passion to provide service excellence to its clients, the Bank also received this year's Pagtugon Award for Consumer Protection (Thrift Bank Category).

"This is a testament of our commitment to provide products and services that will make our clients' transactions as hassle-free, safe, and secure as possible. And we intend to see beyond these awards by constantly delivering our promise and putting weight on what matters most—our clients," added San Pedro.

Now on its 14th year, this event is BSP's way of acknowledging stakeholders who have consistently supported BSP's endeavors and advocacies.



Corporate Social Responsibility



In the Spirit of Giving Back



Sterling Bank of Asia takes part in DepEd's 2017 Brigada Eskwela Program nationwide

In line with its 10th anniversary, Sterling Bank of Asia partnered with the Department of Education (DepEd) and took part in the 2017 Brigada Eskwela program by helping refurbish selected schools in Luzon, Visayas, and Mindanao in time for the start of the school year.

Living up to the principle of banking to a different beat and promoting social responsibility, Sterling Bankers gathered to help in the repairs, repainting, and cleaning of adopted classrooms at San Juan National High School in San Juan City, Metro Manila; Labangon Elementary School in Cebu City; and F. Bustamante National High School in Davao City last May 20, 2017.

Aside from restoring five classrooms in San Juan, and two classrooms each in Cebu and Davao, the Bank and its employees also donated a total of 450 new armchairs to the chosen schools.

Reiterating its commitment to socially responsible banking, Cecilio D. San Pedro, President and CEO of Sterling Bank of Asia, said, "This project is a continuance of Sterling Bank of Asia's dedication to giving back and being a pillar of the community."

"As we celebrate our 10th anniversary, we want to make it more meaningful by expanding our community work that make a difference to the people. We want to underline the Bank's decade of heartfelt service to the



community. This is particularly close to my heart as it involves education," added San Pedro.

One of the recipient schools was San Juan National High School, the only public high school in the country's smallest city, with a student population of over 3,700 and an average of 45 to 50 students to a room. The improvement of its five classrooms and the donation of armchairs help provide an environment that is conducive for learning.

This project is the public school's first partnership with a private institution. According to San Juan National High School Principal Lucila Galang Artuyo, such partnerships between public schools and private companies are most welcome and should happen more often.

"We are very grateful to have been a recipient of Sterling Bank of Asia's volunteerism project. It will make such a difference to the students while they are learning. Private companies like Sterling Bank of Asia are the ones who have the capability to provide what the schools need and we hope that this continues on for years to come," said Artuyo.

"Brigada Eskwela is all about community service and stakeholders' participation; it is not just merely making improvements in the school. And when education of our country's children is concerned, we are all stakeholders," Artuyo added.

SBA's "Kind Heart Gives" marks 3rd year with hospital donation

Sterling Bank of Asia marked another milestone with a donation to its chosen beneficiary, St. Martin de Porres Charity Hospital (SMPCH).

Last December 2017, under Sterling Bank of Asia's "Kind Heart Gives" advocacy, the Bank turned over a cardiac monitor, ECG machine, and various medical tools and supplies to help equip SMPCH's newly renovated Intensive Care Unit facility.

"We started this CSR project three years ago, and we live by our belief that we want to help the people within our community. We sincerely thank SMPCH for allowing us to be of service to the San Juan community," said Cecilio D. San Pedro, SBA President and CEO.

"Sterling Bank of Asia is very generous. We have a lot of indigent people here in San Juan, and even outside San Juan. We always have patients who come here without funds. So we are really grateful to Sterling Bank of Asia for its generosity. Their help will continually

benefit more patients," shared Lilia Bautista, SMPCH Hospital Administrator.

SMPCH is a project of the Dominican Family of San Juan but had depended solely on donations and Divine Providence for its operations. It is a non-stock, non-profit 121-bed capacity Third Referral (Tertiary) General Hospital accredited by the Department of Health. The hospital caters to about 2,500 patients a month, mostly charity cases. It is fully manned by volunteers of over 100 medical doctors and 200 staff members.

"I always say, 'When you give, you give with your heart.' As Sterling Bank of Asia is the 'Bank with a Heart,' we want this exemplified in our advocacy. We want to make a positive difference to the lives of our less fortunate brothers and sisters by supporting the hospital that cares for the poor," San Pedro shared.

San Pedro added, "We will only walk in this life once, so let's do good together and let future generations learn from our tagline: 'kind heart gives.'"





Corporate Governance

Corporate Governance

Sterling Bank of Asia is in continual pursuit of upholding corporate governance as key in fostering resilient corporate culture. Sustainable growth can be achieved by having a corporate culture that is characterized by integrity, transparency, excellence, accountability, and fairness. Coupled with the organization's corporate values, adherence to corporate governance guides all Sterling Bankers in the performance of their respective duties and responsibilities. As such, Sterling Bank of Asia's Board of Directors, management officers, and staff are committed to the principles and best practices set forth in the Board-approved Corporate Governance Manual.

The Bank's governance structure is composed of the Board of Directors, the senior management, organizational and procedural controls, and independent self-assessment functions.

BOARD OF DIRECTORS

The Board advances the long-term success of the Bank by ensuring its competitiveness in a manner consistent with its corporate objectives and the

best interests of its stakeholders. The Board is primarily responsible for approving and overseeing the implementation of the strategic objectives, risk strategy, and corporate values, and overseeing the performance of the management.

The members of the Board possess integrity, physical and mental fitness, relevant education and training, competencies, and sufficient time to fully carry out their responsibilities. Members are thoroughly selected based on their relevant expertise, strategic skills, leadership, and management styles which enable them to tackle wide range of issues and steer the Bank forward.

CHAIRMAN OF THE BOARD

The Chairman actively manages the function of the Board and its committees. He ensures consistent practice of sound-decision making, and regular conduct of productive meetings to tackle strategic matters including discussion on risk appetite and tolerance levels as well as key governance concerns. Further, he maintains an open line of communication and a free exchange of information between the Board and the management.

BOARD COMPOSITION & QUALIFICATION

The Board of Directors is composed of thirteen (13) directors, three (3) of which are independent directors:

Name	Position / Type of directorship	Number of years of service	Number of direct and indirect shares held	Percentage of shares held to total outstanding shares of the Bank
Ruben C. Tiu	Chairman of the Board	11	21,031,346	8.14%
Gregorio T. Yu	Vice Chairman of the Board	11	50,000	0.02%
Cecilio D. San Pedro	Member, President & CEO	2	1	0.00%
Bansan C. Choa	Member	11	41,696,491	16.14%
William L. Chua	Member - Independent	11	50,000	0.02%
Juliet C. Go	Member - Independent	4	1	0.00%
Harris Edsel D. Jacildo	Member	11	1	0.00%
Nilo L. Pacheco, Jr.	Member - Independent	7	1	0.00%
Atty. A. Bayani K. Tan	Member, Corporate Secretary	10	50,000	0.02%
Bernadette Cindy C. Tiu	Member	5	1	0.00%
John Y. Tiu, Jr.	Member	11	21,031,346	8.14%
Atty. Lamberto R. Villena	Member	11	50,000	0.02%
Ignatius F. Yenko	Member	11	1	0.00%

Directors' attendance at board and committee meetings

NAME OF DIRECTORS	Number of Meetings Attended											
	Board Meetings		Audit Committee Meetings		Corporate Governance Committee Meetings		Executive Committee Meetings		Information Technology Committee Meetings		Loan Committee Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Ruben C. Tiu	14	100			8	100	12	100				
Gregorio T. Yu	11	79					11	92			20	95
Cecilio D. San Pedro	14	100					12	100	12	100	21	100
Bansan C. Choa	12	86	11	92	5	63	8	67			16	76
William L. Chua	12	86	12	100	8	100			11	92		
Juliet C. Go	12	86	12	100	8	100						
Harris Edsel D. Jacildo	14	100							12	100		
Nilo L. Pacheco Jr.	14	100			7	88			9	75		
Atty. A. Bayani K. Tan	11	79										
Bernadette Cindy C. Tiu	10	71							11	92		
John Y. Tiu Jr.	12	86					11	92			20	95
Atty. Lamberto R. Villena	13	93					10	83			21	100
Ignatius F. Yenke	14	100					11	92			19	90
<i>Total Number of Meetings Held During the Year</i>	14		12		8		12		12		21	

NAME OF DIRECTORS	Number of Meetings Attended									
	Nomination and Compensation Committee Meetings		Pre-qualification, Bidding and Awards Committee Meetings		Related Party Transaction Committee Meetings		Risk Management Committee Meetings		Trust Committee Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Ruben C. Tiu	1	100							12	100
Gregorio T. Yu										
Cecilio D. San Pedro			8	100			12	100	12	100
Bansan C. Choa	1	100	8	100						
William L. Chua					12	100	9	75		
Juliet C. Go					12	100	11	92		
Harris Edsel D. Jacildo					12	100	12	100	12	100
Nilo L. Pacheco Jr.			8	100	7	58	11	92	11	92
Atty. A. Bayani K. Tan							8	67		
Bernadette Cindy C. Tiu										
John Y. Tiu Jr.	1	100	8	100						
Atty. Lamberto R. Villena			7	88			11	92		
Ignatius F. Yenke	1	100								
<i>Total Number of Meetings Held During the Year</i>	1		8		12		12		12	

Board Level Committees

Executive Committee

The Executive Committee assists the board in the general supervision, administration, and management of the Bank's affairs. The committee is actively engaged in overseeing the development and execution of the Bank's business strategies.

Chairman: Gregorio T. Yu

Members: Ruben C. Tiu • Bansan C. Choa • Cecilio D. San Pedro
John Y. Tiu, Jr. • Ignatius F. Yenke • Atty. Lamberto R. Villena

Alternate Members: Harris Edsel D. Jacildo • Atty. A. Bayani K. Tan
Bernadette Cindy C. Tiu

Risk Management Committee

The Risk Management Committee is responsible for developing and overseeing the Risk Management Program of the Bank and the Trust Unit. The Committee approves the risk strategy and the supporting risk management policies and procedures, ensuring the soundness of risk management practices, while fully considering the Bank's risk exposures.

Chairman: Nilo L. Pacheco, Jr.

Members: William L. Chua • Juliet C. Go • Harris Edsel D. Jacildo
Atty. A. Bayani K. Tan • Atty. Lamberto R. Villena • Cecilio D. San Pedro

Alternate Member: Gregorio T. Yu

Audit Committee

The Audit Committee is responsible for overseeing and reviewing the effectiveness of the Bank's system of controls, including financial and operational controls, including compliance and risk management.

Chairman: William L. Chua

Members: Bansan C. Choa • Juliet C. Go

Alternate Members: Bernadette Cindy C. Tiu • Ignatius F. Yenke
Gregorio T. Yu • Atty. Lamberto R. Villena

IT Committee

The IT Committee oversees the development of the Bank's Information Technology Systems and Infrastructure. It ensures that systems are embedded with multi-layered controls in order to protect bank information and technical infrastructure.

Chairman: William L. Chua

Members: Bernadette Cindy C. Tiu • Harris Edsel D. Jacildo
Nilo L. Pacheco, Jr. • Cecilio D. San Pedro

Corporate Governance Committee

The Corporate Governance Committee assists the board in fulfilling its corporate governance responsibilities and oversees periodic assessment of board performance, as well as the various Board Committees and Executive Management.

Chairman: Nilo L. Pacheco, Jr.

Members: Bansan C. Choa • William L. Chua • Juliet C. Go • Ruben C. Tiu

Loan Committee

The Loan/Credit Committee manages credit risk within the lending portfolio and monitors lending units' activities to ensure that they are carried out in a manner consistent with board-approved strategic plans and objectives. The committee reviews the effectiveness of credit management systems, policies, and processes for measuring, monitoring, and controlling risk exposures.

Chairman: Bansan C. Choa

Members: John Y. Tiu, Jr. • Gregorio T. Yu • Cecilio D. San Pedro • Ignatius F. Yenke • Atty. Lamberto R. Villena

Alternate Member: Bernadette Cindy C. Tiu

Pre-Qualification, Bidding and Awards Committee

The Pre-Qualification, Bidding and Awards Committee oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management, while also ensuring transparency and good governance in the process.

Chairman: John Y. Tiu, Jr.

Members: Bansan C. Choa • Cecilio D. San Pedro • Nilo L. Pacheco, Jr.
Atty. Lamberto R. Villena

Nomination and Compensation Committee

The Nomination and Compensation Committee is responsible for reviewing, screening, and approving management recommendations on compensation and other Human Resource-related matters.

Chairman: Ruben C. Tiu

Members: Bansan C. Choa • John Y. Tiu, Jr. • Ignatius F. Yenke
Dulce Yenke-Edillor

Trust Committee

The Trust Committee is responsible for overseeing the investment activities of the Bank's Trust unit.

Chairman: Nilo L. Pacheco, Jr.

Members: Ruben C. Tiu • Cecilio D. San Pedro • Harris Edsel D. Jacildo
Hazel M. Navarro

Related Party Transactions Committee

The Related Party Transactions Committee is responsible for screening related party accounts for board approval.

Chairman: Juliet C. Go

Members: William L. Chua • Harris Edsel D. Jacildo • Nilo L. Pacheco, Jr.

Performance Assessment Program

In ensuring that the Board and management effectively carry out its functions and duly observe the prescribed set of principles and guidelines espoused by the Bank, a performance appraisal review is performed annually to aid the Board and management in determining areas for improvement and addressing gaps on critical governance structures.

Orientation, Education, Succession and Retirement Programs

Center for Learning (CFL) has institutionalized the Training Plan, comprised of competency building courses designed for various groups and employees. These cover activities from on-boarding to supplemental trainings targeted to build the four areas of competence, namely Banking Know-How, Functional Know-How, Leadership, and Service Excellence.

With the Bank's Training and Development Program, CFL continues to equip employees across the organization. Every Sterling Banker, including the directors and senior management, are afforded continuing education to keep them adept in their respective roles. Likewise, development programs such as the Management Training Program, Branch Officers Development Program, and Leadership Programs are continuously conducted to provide opportunity for growth and ease in succession.

Succession planning has also been incorporated in the Bank's employee development programs to serve as an encompassing tool for reference and monitoring candidates' readiness, and allows integration of succession planning, talent management, and retention.

Remuneration Policy

There is continuous review and alignment of remuneration to attract and retain the services of qualified directors and officers to support the interest of the Bank and its stakeholders.

In determining proper compensation, the following guidelines are considered: (1) the level of remuneration is commensurate to the responsibilities of the role; (2) no director should participate in deciding on his remuneration; and (3) remuneration pay-out schedules should be sensitive to risk outcomes over a multi-year horizon.

The top five highest paid officers of the Bank are the President and CEO, three EVPs, and one SVP.

Policies and Procedures on Related Party Transactions (RPT)

Related Party Transactions are conducted at an arm's-length basis with the best interest of the Bank and its stakeholders in mind. Potential conflicts of interests are avoided by subjecting material RPTs to appropriate vetting by the RPT Committee. Moreover, involved related parties refrain from participating in discussions, decision, or approval of the transaction.

The RPT Committee oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of its policies and procedures.

Note: Refer to 2017 Audited Financial Statements for related party transaction details.

Self-Assessment Function

Independent internal audit and compliance functions monitor the adequacy and effectiveness of the Bank’s governance processes, controls, and compliance with laws, rules, and regulations.

Internal Audit Function

The Internal Audit function examines, evaluates and improves the effectiveness of internal controls, risk management, and governance processes. It is tasked to perform regular and special risk-based audit consistent with the established objectives of the Bank.

Internal Audit reports directly to the Audit Committee.

Compliance Function

The Compliance function facilitates the effective management of compliance risk. It mainly (1) advises the Board and management on relevant laws, rules and regulations, (2) conducts compliance risk assessment and testing, (3) monitors compliance risk exposures, and (4) corresponds and coordinates with the regulators regarding compliance matters.

Compliance Office reports to the Corporate Governance Committee.

Corporate Social Responsibility

The Bank believes in contributing positively to society. It is through the society that the Bank grows and develops into an emerging financial institution. That said, the Bank actively contributes to the advancement of the society through its various advocacy projects and outreach programs.

In the summer of 2017, the Bank participated in the Brigada Eskwela program of the Department of Education (DepEd), with Sterling Bankers gathered to help in the repairs, repainting, and cleaning of adopted

classrooms in Metro Manila (San Juan National High School), Cebu City (Labangon Elementary School), and Davao City (F. Bustamante National High School). Aside from restoring classrooms, the Bank also donated a total of 450 new armchairs to the chosen schools.

Last December 2017, under the Bank’s ‘Kind Heart Gives’ advocacy, a cardiac monitor, ECG machine, and various medical tools and supplies were donated to St. Martin De Porres Charity Hospital (SMPCH). This project, which started three years ago, was conceptualized to allow the Bank to be of service to the San Juan community where the Bank’s corporate center is located.

Consumer Protection

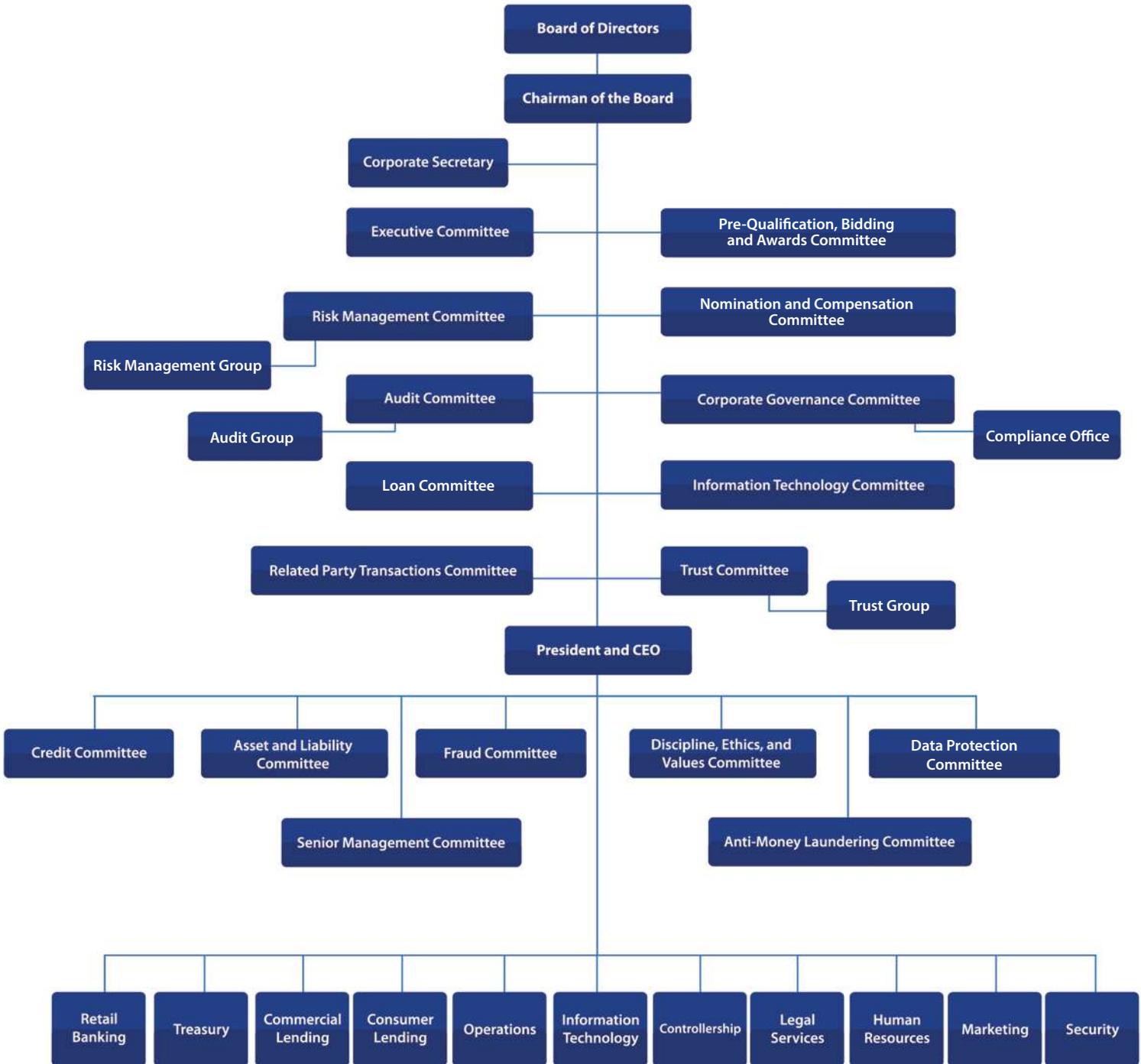
The Bank recognizes that financial consumer protection is a fundamental part of corporate governance and culture. As such, it has put in place a board-approved Consumer Protection Risk Management System (CPRMS) which provides appropriate management controls to ensure that customers’ rights as consumer of financial products and services are upheld.

A customer management hotline is made available to address client concerns. Complaints are also forwarded to the Risk Management Group, Internal Audit Group, and Compliance Office for review and immediate resolution of possible operational lapses and potential regulatory breaches.

	2016	2017
Complaints	1,445	1,615

As a testament to Sterling Bank of Asia’s commitment to customer service, the Bank was awarded by the BSP with the Pagtugon Award for customer protection under the thrift banking category.

Organizational Structure



In the 10-year horizon, the risk landscape has evolved and shifted from top risks being largely of economic nature to that of environmental, technological, and geopolitical risks. In 2017, we witnessed several terrorist attacks globally, emphasizing how the role of banking and financial institutions to curb terrorist financing. We also saw an increase in ransomware attacks, with notable ones such as WannaCry affecting over 200,000 computers in 150 countries and Petya which affected major global organizations which translated to losses of over \$300 million. These incidences have exhibited its capability to disrupt major infrastructure including government services, hospitals, banks and financial services, railway and telecommunication companies globally.

Mindful of this evolving risk environment, Sterling Bank of Asia has constantly undertaken enhancements to its risk management programs. For 2017, the Bank updated its Operational Risk Management framework and embarked on an intensified operational risk awareness program to drive the control culture across the organization. Given the cybersecurity concerns, the Bank has also beefed up its Information Security function. Continuous refinements to risk models were implemented to provide more granular assessments, enhance risk measurements, and better capture the Bank's risk profile. Market risk management and monitoring capabilities were intensified with the full implementation of the Guava Treasury system. Meanwhile, continuous strengthening of the Bank's Credit Risk Management System from credit underwriting to work-out and remedial management of problem accounts to collection efforts allowed the Bank to maintain the quality of its portfolio, with asset quality indicators being consistently better than peers.

The foundation of Sterling Bank of Asia's risk infrastructure is built on three elements -- people, process, and technology. These elements are what uphold the Bank's Enterprise Risk Management (ERM) System. What ERM accomplishes is an integration framework overlooking the entire organization—allowing proper identification of key risk areas in a particular organizational area with a holistic approach rather than a unilateral paradigm. An ERM systemic approach refines the approach on identifying and assessing risk, and helps the Bank's senior management and the Board to drive a consistent ministrations of risk across the organization.



Risk Management

Risk Management Framework

Sterling Bank’s Risk Management framework is supported by four key pillars, namely, Strategy, Organization and Governance, Infrastructure, and Models and Measures.

Strategy

As the strategic direction drives the activities of the Bank for value creation, this likewise determines the risk profile of the business. The Bank’s risk exposure is thus managed within the context of the organization’s strategies and objectives.

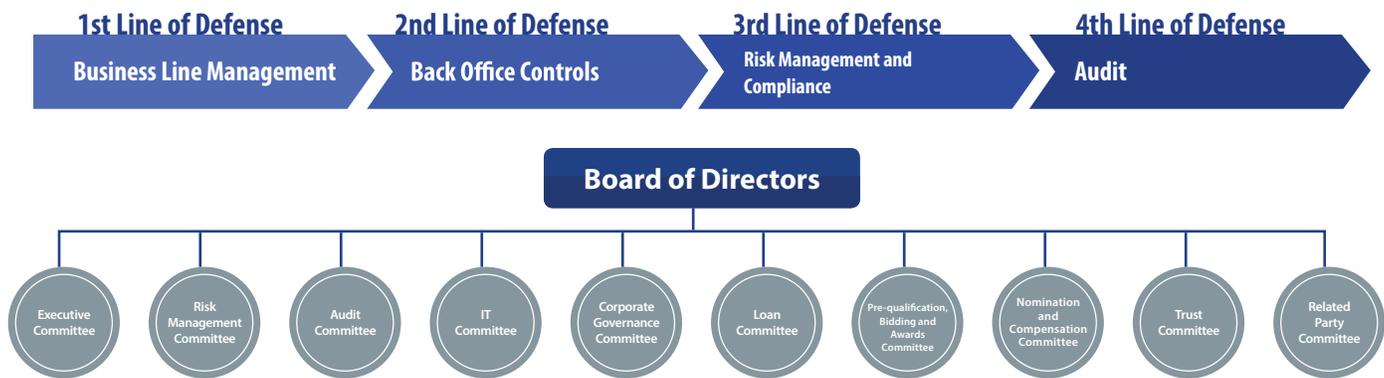
Environmental scanning is an integral component of Sterling Bank of Asia’s annual strategic management exercise. Political, environmental, social, technological, legal, and economic considerations factor in the Bank’s development of strategic and implementation plans to allow for risk-informed direction setting.

Risk Organization and Governance

Sterling Bank of Asia adopts a multiple stakeholder approach to managing risk and the business. Working as a team towards success and accomplishments of

the Bank’s strategic initiatives, accountability for risk is shared by all across the different business units, with each member kept aware of their respective roles and responsibilities in the risk management process.

The Bank adheres to the principle of separation between front, middle, and back office functions with its four lines of defense structure. First line of defense is business management where front line units whose activities generate risk, whether of financial or non-financial nature, are responsible for assessing and managing them. Each business line takes charge of the establishment and implementation of controls to mitigate risks inherent to their products and services. Second line of defense are the back office units that provide support functions and facilitate transaction processing, ensuring that controls are in place and policies are adhered to in the implementation and execution of deals. Third line of defense is the Risk Management and Compliance Office that sets risk management and control standards, including compliance with applicable laws and regulatory requirements. These independent units are also charged with overseeing and challenging the risk-taking activities of the front line units and the effectiveness of controls in the back office functions. They likewise provide advisory services to bank units with regard to methodologies, tools, and processes they could employ in order to promote risk awareness and drive a culture of compliance and control. Meanwhile, Internal Audit acts as the fourth line of defense and provides the assurance and validation mechanisms to assess the adequacy of the design and effectiveness of instituted risk management systems.



The Bank’s Board of Directors has the overall accountability for risk and provides for the tone at the top, shaping the corporate culture and values that fuel the organization. It is responsible for providing the Bank’s strategic direction and reviewing business plans and strategies, overseeing its implementation and managing performance to ensure that activities are within acceptable risk boundaries. It oversees the implementation of the Bank’s Enterprise Risk Management System that provides for a comprehensive framework for the identification, measurement, monitoring and control of bank risk exposures. The Board is supported by various board and management level committees in its risk oversight functions. These various committees are responsible for developing, managing and monitoring specific risks at various levels in the organization. In 2017, the Bank created the AML and Fraud Committees with the objective of further strengthening its governance structure to ensure that the Bank upholds its commitment to be responsible stewards of resources given its fiduciary role.



President and CEO



Discipline, Ethics & Values Committee (DEVCom)

Ensures that the Bank standards and code of conduct are adhered to and exercises disciplinary powers on infringement of the rules governing banking activities. As part of the Bank’s operational and reputational risk management, the Bank espouses all its personnel to adhere to the code of conduct and perform their fiduciary responsibility consistent with the Bank’s vision and core values.



Senior Management Committee (SMC)

Exercises general supervision, administration, and management of the Bank’s operations, and as such, oversees the operational and strategic risk management.



Credit Committee (CreCom)

Evaluates and screens all credit proposals requiring the approval of the president, LoanCom or board, and likewise monitors credit underwriting activities done at the management level; ensures that credit risk is within the board-set risk tolerance levels and that proposals comply with the credit underwriting standards as set in the Bank’s policies and procedures.



Asset-Liability Committee (ALCo)

Responsible for ensuring that the Bank and all its legal vehicles maintain adequate liquidity, sufficient capital, and the appropriate funding to meet all business requirements and comply with all regulatory requirements; responsible for building a stable funding structure by managing the long-term profiles of the Bank’s asset and liability maturities; manages the statement of financial position and ensures that strategies are in accordance with adequate liquidity, capital and diversified funding, and establishes asset-liability pricing policies consistent with the Bank’s strategies.



Fraud Committee

Tasked to mitigate fraud risk, acting as a recommendatory body to policy and procedural enhancements with the aim of preventing occurrence of fraud incidences.



Anti-Money Laundering Committee (AML)

Tasked to ensure compliance to Anti Money Laundering laws and its implementing rules and regulations (IRR), BSP guidelines and regulations.



Data Protection Committee

Tasked to oversee the implementation of the Data Privacy Act. The Bank adopted a committee approach to DPA compliance with Data Protection officers representing the different areas namely, Compliance, Risk, Legal, Information Technology, and Security.

Operational Risk Department

- Operational loss data tracking and reporting
- Operational risk identification, quantification, and assessment
- Methodologies in the conduct of risk and control self-assessment (RCSA) across the institution
- Comprehensive Business Continuity Program
- Analysis of operational risk management processes within the Bank
- Monitoring of Risk Treatment Action Plans (RTAP)

Credit Risk and Control Department

- Credit portfolio risk management and analytics
- Bank's Internal Credit Risk Rating System
- Credit risk identification, quantification, and assessment
- Detection of credit concentrations and problem accounts
- Establishment of credit limits and credit underwriting standards
- Credit policy development

Market and Liquidity Department

- Analytics on the Bank's market, liquidity and interest rate risk
- Risk identification and assessment affecting the Bank's trust, treasury operations, and financial market activities
- Market risk quantification and assessment
- Contingency measures to address the impact of market shocks and liquidity stress scenarios

Information Security (IS) and Information Technology (IT) Risk

- Technology risk management
- Information security program management
- IT and IS risk identification, quantification, and assessment
- Access control reviews
- IS incident management

Infrastructure

Sterling Bank of Asia's risk infrastructure has three critical components, namely people, processes, and technology. These three provide the backbone of the Bank's Enterprise Risk Management (ERM) System. While the responsibility for business-related risks lies with the respective business units, with risk management controls embedded in their respective processes, these aim to address specific risks within a particular organizational area. ERM, meanwhile, provides for an integrated framework overarching the entire organization and shifts perspective from a silo paradigm to a holistic viewpoint. It establishes the critical linkages between the various business activities across the enterprise and the associated risk metrics. This integrated view allows for the identification of interdependencies of risks and helps the Bank's senior management and the Board to drive a consistent treatment of risk across the enterprise.

Accountability for risk is shared by all across the enterprise, with each Sterling Bank of Asia employee made to understand their participation in the risk management process as they carry out their respective functions. This is inculcated in the onboarding process when they undergo the New Hires Orientation (NHO) Program and are introduced to the Bank's Enterprise Risk Management framework. As part of the Bank's continuing education program driven by the Center for Learning (CFL), employees are provided with role-based risk management education designed to address training needs for people outside the formal risk management function.

Meanwhile, business processes in the Bank are established via a multiple stakeholder approach aimed at improving efficiencies, eliminating redundancies and reducing duplication of effort. Such approach provides a platform for shared understanding of risk across the process value chain. These processes are supported by the Bank's policies and procedures that set out the framework for the management of the Bank's key risks, namely, credit, market, liquidity, and operational risks. Policies provide business units with guidance on their

various risk taking activities to ensure their alignment with Board-set risk appetite and tolerance levels. Policies are subjected to periodic review and updates to ensure their responsiveness to evolving risk and business environments.

In today's world, Information Technology is a crucial component of a financial institution's risk management system. In Sterling Bank of Asia, the IT Group provides the necessary infrastructure to automate critical business activities with embedded control structures to support a common risk architecture across the organization. IT also provides the data management facility to enable risk reporting and MIS for performance monitoring and decision-making.

Risk Models and Measurements

Risk measurements and monitoring activities provide the necessary information on the Bank's risk exposures that help Sterling Bank of Asia in charting its direction going forward. They serve as the lamp posts that guide decision-making and provide the trigger mechanisms for strategic inflection points given the changing regulatory and risk environment that may challenge key strategic assumptions from which business plans are anchored. Results of risk monitoring are reported on a periodic basis to the Bank's Senior Management and the Risk Management Committee.

Sterling Bank of Asia employs various risk management methodologies, based on a combination of industry-accepted quantitative and qualitative techniques, to measure and monitor the Bank's risk exposures. This includes loan loss estimation methodologies using probabilities of defaults and loss rates for credit risk, the use of internal credit rating systems, Value at Risk and Earnings at Risk measures, gap analysis, and the tracking of various key risk indicators and metrics within an established risk dashboard. Risk models used are subjected to periodic back-testing and review in order to determine their effectiveness in measuring levels of risk.

	RISK MANAGEMENT MECHANISMS	RISK CONTROL AND MONITORING TOOLS	RISK REPORTING AND BUSINESS MANAGEMENT
CREDIT	<ul style="list-style-type: none"> a. 10-tiered Credit Risk Rating System b. Classification of Credits c. Concentration by industry with risk classification, large exposures, loan tenor, collateral cover and investment counterparty exposures d. Impairment Loss Estimation e. Stress Testing 	<ul style="list-style-type: none"> a. Central Liability System b. Limits: <ul style="list-style-type: none"> • Single Borrowers' Limit • Group Exposures • Industry Exposures • Counterparty Limits • Country Limits c. Loan Provisioning d. Herfindahl Hirschman Index (HHI) e. PD & ITL impact on CAR 	<ul style="list-style-type: none"> a. Annual updates on account risk rating b. Monthly credit risk profiling/management reporting to the RMC c. PD & ITL status reporting
MARKET AND INTEREST RATE	<ul style="list-style-type: none"> a. Concentration by type of investment, tenor and currency denomination b. Stress Testing c. Sensitivity Analysis d. Gap Analysis e. Review of new and existing investments and products 	<ul style="list-style-type: none"> a. Limits: <ul style="list-style-type: none"> • Position Limit • Value at Risk (VaR) Limit • Alert levels (1 & 2) • Stop Loss Limit • Traders Limit • Earning at Risk (EaR) Limit b. Value at Risk (VaR) estimates c. Marked to market valuations d. Interest rate gap e. Exposure/position limits and duration limits on investment types/products, countries, and issuer f. Monitoring of Off-Market transactions g. Back testing to manage model risk 	<ul style="list-style-type: none"> a. Automated daily risk management, reporting of limits, and P&L to the President and other concerned parties b. Monthly Market Risk management reporting to risk-taking units, the President, ALCo and RMC
LIQUIDITY	<ul style="list-style-type: none"> a. Concentration by type of investment, tenor, and currency denomination b. Stress Testing c. Sensitivity Analysis d. Gap Analysis e. Contingency Funding Plan 	<ul style="list-style-type: none"> a. Maximum Cumulative Outflow (MCO) b. Determining funding requirements c. Monitoring of financial liquidity ratios 	<ul style="list-style-type: none"> a. Weekly reporting of balance sheet profile to ALCo b. Monthly Liquidity Risk management reporting to RMC

	RISK MANAGEMENT MECHANISMS	RISK CONTROL AND MONITORING TOOLS	RISK REPORTING AND BUSINESS MANAGEMENT
OPERATIONAL	<ul style="list-style-type: none"> a. Four lines of defense b. Operational Loss Database maintenance c. Operational Risk and Control Self-Assessment d. Product risk assessments e. Business Continuity Management 	<ul style="list-style-type: none"> a. Regular Risk Control and Self-Assessment b. Loss Event Reporting c. Risk Mapping d. Business Continuity Planning e. Key Risk Indicator (KRI) Monitoring 	<ul style="list-style-type: none"> a. Incident Reports b. Corrective Action Tracking c. ORM reports to the RMC d. Close Coordination with Internal Audit and IT
COMPLIANCE	<ul style="list-style-type: none"> a. Compliance Program b. Review of bank contracts and transactions c. Know your customer (KYC) d. Know your employees (KYE) 	<ul style="list-style-type: none"> a. Compliance testing b. Information dissemination (e.g. BSP circulars, manual of regulations for banks, BIR and AMLC regulations) to concerned units c. Training and seminars d. Regular assessment of Compliance Program e. Monitoring of fines and penalties (actual and probable) 	<ul style="list-style-type: none"> a. Regular reporting and updating of regulatory concerns to SMC and Board/ExCom
STRATEGIC	<ul style="list-style-type: none"> a. Internal and external environment scanning b. Strategic and Capital Planning c. Performance Management d. Commitment to good corporate governance as an integral part of strategic objectives 	<ul style="list-style-type: none"> e. Impact assessment based on internal and external environmental scanning f. Performance Management System – Business Segment Management Performance Review 	<ul style="list-style-type: none"> a. Regular reporting and updating of performance vs. objectives to SMC and Board/ExCom
REPUTATIONAL	<ul style="list-style-type: none"> a. Code of Conduct b. Know Your Customer (KYC) Program c. Media relations d. Customer feedback and complaints management e. Strengthened operational controls 	<ul style="list-style-type: none"> a. Media scanning b. Proactive solicitation of customer feedback c. Customer service management for complaints and client concerns d. Service Level Agreements (SLA) e. Client Survey Forms 	<ul style="list-style-type: none"> a. SLA Reporting b. Management Reporting of significant issues c. Internal and external communication

Stress testing and scenario analysis is another key component of the Bank's risk management system. It provides a mechanism to gauge the Bank's resilience against market occurrences and potential events, by postulating varying degrees of shocks and measure their impact on the Bank's asset and liability portfolios, bottomline, cost, and capital structure. The Bank's stress testing program employs a range of methodologies including sensitivity and scenario analyses, as well as reverse stress tests using a combination of regulatory-driven and internally developed scenarios. These measure its effect on material risk exposures at the portfolio and sub-portfolio levels. These multiple views of what the future may be, spanning a wide range of possibilities, help Sterling Bank of Asia to better manage uncertainties and foster collaborative efforts across the risk, finance, and frontline business functions to determine when contingency plans and exit strategies become necessary.

Types of Risks

Credit Risk

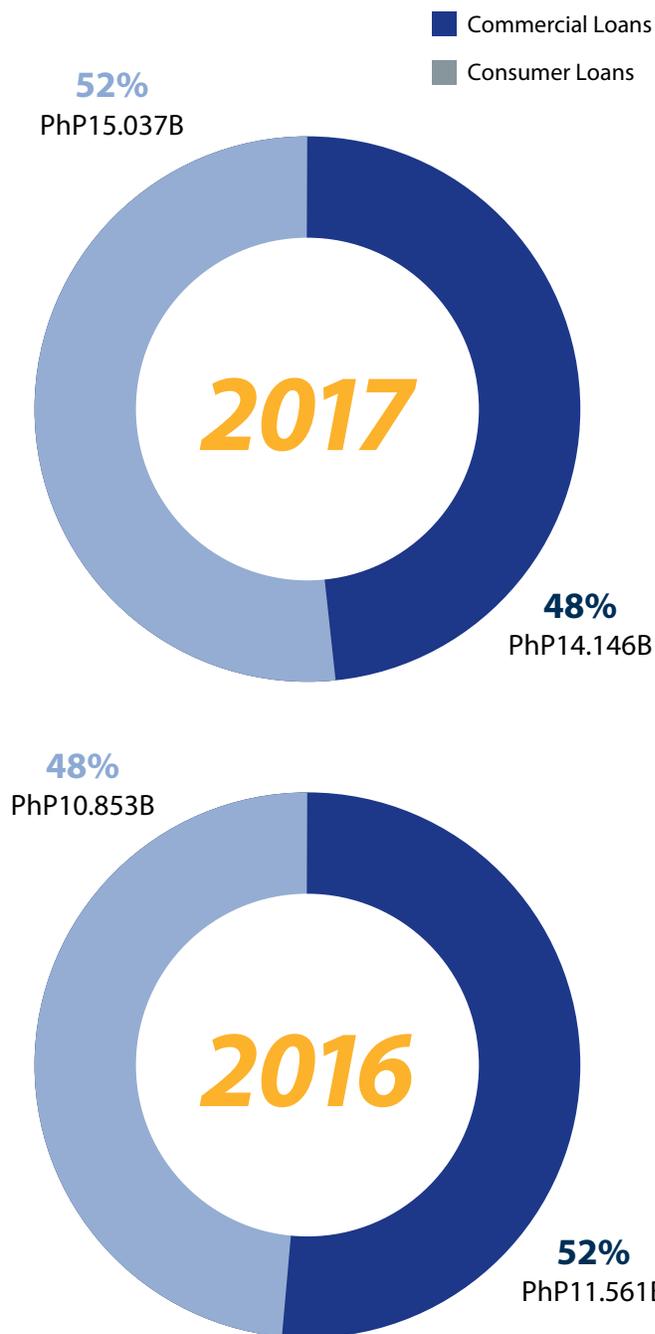
Credit risk is the risk of financial loss to the Bank if a borrower or counterparty is unable to fulfill its contractual obligations in a timely manner. Credit risk is present in majority of the Bank’s business activities such as lending, trade finance, and investment activities.

Credit risk is the Bank’s largest risk exposure contributing 92% of the Bank’s risk weighted assets for 2017. The Bank uses the standardized approach to determine capital for credit risk.

Lending activities from the Commercial and Consumer Lending Groups comprise the majority of the Bank’s credit risk exposures. The combined loan portfolio of the two groups stood at PhP29.183 billion, exhibiting a 30% year on year growth. The auto loan segment has been the primary driver of growth for the lending units as demand for new car units and automotive financing are still on the rise. Car sales soared to new highs in 2017 ahead of the Tax Reform for Acceleration and Inclusion or TRAIN, which will be implemented effective January 2018. The consumer lending segment has outpaced the growth of the commercial lending portfolio. This is supportive of the Bank’s strategy of gradually shifting portfolio mix in favor of consumer lending. For 2017, Consumer and Commercial Loans mix registered at 52% and 48%, respectively, from 48% and 52% the previous year.

IN BILLIONS (PhP)	2017	2016
Commercial Loans	14.14	11.56
Consumer Loans	15.04	10.85
Total	29.18	22.41

Combined Commerical and Consumer Lending Portfolio



CREDIT RISK WEIGHTED ASSETS				
	2017 AMOUNT (in Millions)		2016 AMOUNT (in Millions)	
0% Risk Weight				
Cash on hand	629.387		625.102	
Due from BSP	2,513.066		3,142.508	
Available for sale financial assets	651.355		673.358	
Unquoted debt securities	573.989		613.804	
Loans and Receivables Arising from RA/CA/PR/SLB	371.802		1,084.987	
Loans to the extent covered by hold-out	1,170.848		235.682	
Loans to the extent covered by Marginal Deposits	4.873		3.779	
Loans to the extent guaranteed by HGC	1,289.495	-	1,407.727	-
Total Subject to 0% RISK WEIGHT	7,204.815		7,786.947	
20% Risk Weight				
Checks and other cash Items	-		-	
Claims guaranteed by foreign incorporated banks	2,503.521		972.199	
Interbank call loans	77.195		-	
Claims on Philippine incorporated private enterprise	211.755		220.063	
Claims guaranteed by foreign Incorporated private enterprise	196.643		201.574	
Total Subject to 20% RISK WEIGHT	2,989.114	597.823	1,393.836	278.767
50% Risk Weight				
Loans to individual for housing purposes	1,057.457		875.323	
Foreign currency denominated claims on or portions of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government and the BSP.	107.035		470.057	
Total Subject to 50% RISK WEIGHT	1,164.492	582.246	1,345.380	672.690
75% Risk Weight				
Qualified MSME loans	2,702.594		2,460.501	
Total Subject to 75% RISK WEIGHT	2,702.594	2,026.945	2,460.501	1,845.383
100% Risk Weight				
NPL to individuals for housing purposes	9.499		11.635	
Other assets	24,499.899		19,223.398	
Total Subject to 100% RISK WEIGHT	24,509.399	24,509.399	19,235.033	19,235.033
150% Risk Weight				
All NPL except NPL individual for housing purposes	1,117.390		924.893	
Real and other properties acquired and NCAHS	230.587		168.116	
Total Subject to 150% RISK WEIGHT	1,348.797	2,021.966	1,093.009	1,639.514
Risk-weighted On Balance Sheet		29,738.378		23,671.386
Risk-weighted Off Balance Sheet		10.376		12.649
Counterparty (Trading/Banking)		6.300		2.537
TOTAL CREDIT RISK		29,755.054		23,686.572

The commercial lending portfolio stood at PhP14.146 billion. Majority of these loans are short-term working capital loans granted on clean basis as the Bank practices risk-based lending, which factors cash flow consideration in the credit structure. Repayment capacity is established through cash flow assessments with the acceptance of collateral being a secondary consideration as a risk mitigation technique. The fact that a substantial portion of the Bank's commercial loan portfolio is unsecured is indicative of the implementation of risk-based lending standards over collateral-based lending.

Commercial credit structures are matched with borrower's business financing requirements. Credit facilities come in the form of loan lines for working capital requirements, receivables financing and factoring, medium term loans for capital expenditures, floor stock financing for automotive dealers, and international and domestic trade financing with credit terms matched with client's funding gap.

Commercial loans are subjected to the Bank's Internal Credit Risk Rating System (ICRRS), wherein the Bank uses a 10-scale rating system to profile commercial loans into High Grade, Standard Grade or Impaired categories.

RISK RATING	CLASSIFICATION	CREDIT QUALITY
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

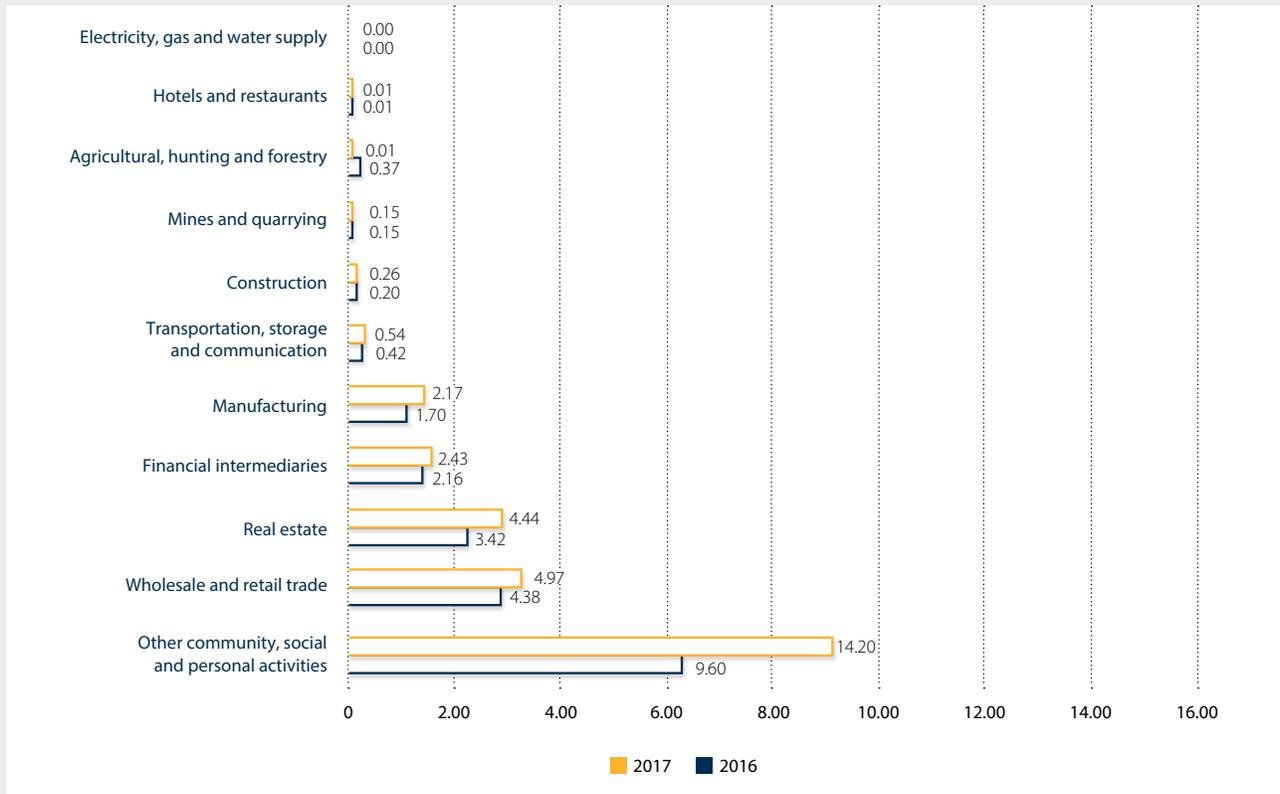
The rating system is divided into two parts: the borrower's risk rating (BRR), and the facility risk rating (FRR). The BRR uses a combination of financial indicators, management assessments and industry features which combine both quantitative and qualitative analyses as factors to measure credit risk. On the other hand, FRR takes into account the credit enhancements derived from the credit structure as well as risk mitigation mechanisms. Credit ratings are assigned during time of loan approval for large accounts, and post approval for management-level approvals. Credit ratings are being updated and re-evaluated annually or as necessary, given material changes to the borrower's credit worthiness.

As the Philippine economy continues to grow, opportunities abound for the consumer loan segment as consumer confidence and disposable income continue to improve. Consumer lending saw a double-digit growth of 39% in 2017. With the operationalization of the Credit Information Corporation (CIC), increased transparency in the system is expected to strengthen and boost retail lending.

Consumer loans are underwritten based on the Bank's credit acceptance criteria which are built on a set of borrower attributes. In 2017, the Bank rolled out the new consumer credit scorecards, which improved the underwriting process and consumer profiling mechanism. The Bank takes a product-based and customer-centric approach in its retail lending operations. Consumer loans are divided between secured and unsecured product lines. Secured retail products include auto and real estate loans while personal, salary and employee loans make up unsecured retail products. These loans are designed to finance the personal needs of the Bank's customers as an alternative to credit card obligation, as well as to finance SMEs.

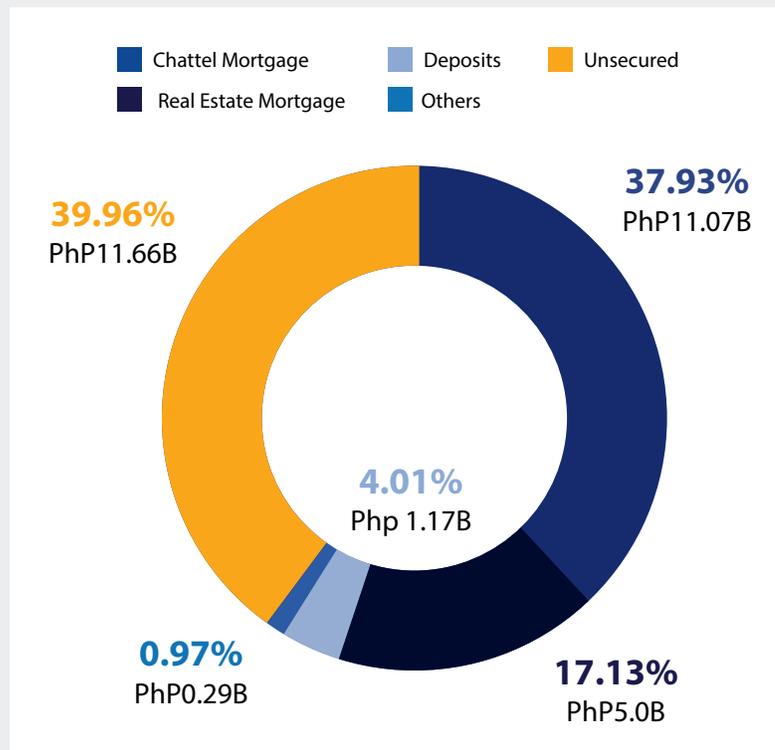
The Bank manages concentration risk by spreading risk across various industry sectors. However, lending units have certain industries identified as their target market and strategic focus aligned with the risk appetite set by Sterling Bank of Asia's Board of Directors. Consumer lending is focused on the other community, social and personal activities sector, as well as the real estate sector. Commercial Lending, meanwhile, focuses on funding SMEs, which are primarily operating in the wholesale and retail trade sector. In 2017, the Bank saw improvements in its industry risk rating framework, which takes into account cyclicity and structural dimensions in the risk assessment.

Industry Sector Distribution of Loans and Receivables (%) In Billions (PhP)



Sterling Bank of Asia’s credit risk management system provides for a mechanism to manage risk both at the individual and portfolio levels. At the individual level, borrowers undergo a comprehensive assessment of creditworthiness as part of the Bank’s loan underwriting process. Cash flow is the primary basis of repayment capacity in the Bank’s evaluation process. For business loans, it is accompanied by comprehensive evaluation of business fundamentals that factor in socio-economic, political, environmental, legal and technological aspects in order to provide for a more forward looking approach to ascertain cash flow generation potential. Assessments provide for safeguards against over indebtedness as part of the Bank’s commitment to uphold consumer protection standards. At the portfolio level, the Bank has established a system of limit structures to avoid excessive credit concentration. These include limits for single and group of related borrowers, industry sector exposures, and country cross-border risks, all of which are subject to annual reviews.

Portfolio Breakdown by Security (%)



In terms of the approval process, embedded controls include the adherence to the “Four Eyes Principle” following a system of delegated authorities as approved by the board.

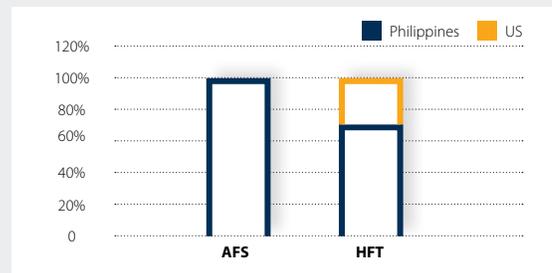
The Loan Committee (LoanCom) serves as the governance body overseeing the Bank’s credit risk management system. It reviews and approves the credit risk strategies employed by the business units, which defines their respective target markets and product offerings. Approval of credit policies which provide parameters for lending and credit risk-taking and the corresponding risk control framework is also done at the LoanCom level.

At the management level, the Credit Committee (CreCom) takes charge of overseeing the implementation of the instituted credit risk management systems. It ensures alignment of the Bank’s credit risk-taking activities with the board-approved strategies and makes certain that credit underwriting is within set limits and thresholds.

Credit risk exposures are monitored and reported regularly to the Credit, Loan, and Risk Management Committees. The development of credit risk management mechanism is the responsibility of the Credit Risk and Control Department of the Risk Management Group, which serves as the support structure of the Risk Management Committee. Formulation and implementation of credit risk policies, risk measurements, and monitoring mechanisms are also functions of the Credit Risk and Control Department.

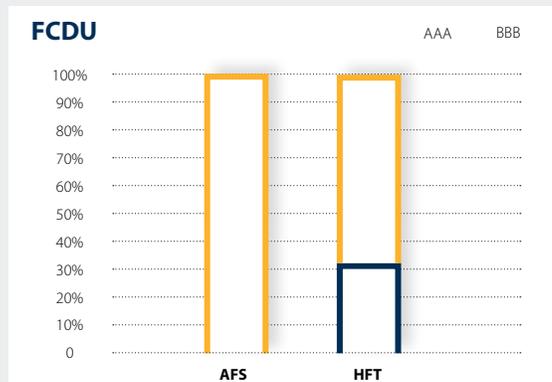
As a testament to the Bank’s prudent credit risk underwriting procedures, the Bank’s overall credit risk profile has significantly improved. The Bank has significantly closed the gap between the Bank and the industry’s gross NPL ratio during the 1st half of 2017, and has consistently outperformed the industry during the 2nd half of the year. As of December 2017, the Bank’s gross NPL ratio stood at 3.75% which is significantly better than the industry average of 4.70%.

Credit exposures are also present in the Bank’s treasury trading and investment portfolios. Credit risk in the Treasury Portfolio is managed by monitoring the prices of securities which provide indications of credit risk premium priced by the market. Credit limit structures such as position limits, counterparty limits, and country limits are likewise in place to ensure that investment activities are carried out within Board-set boundaries. Counterparty risk is generally reduced by netting agreements which provide for single net settlement for all exposures covered by the agreement.



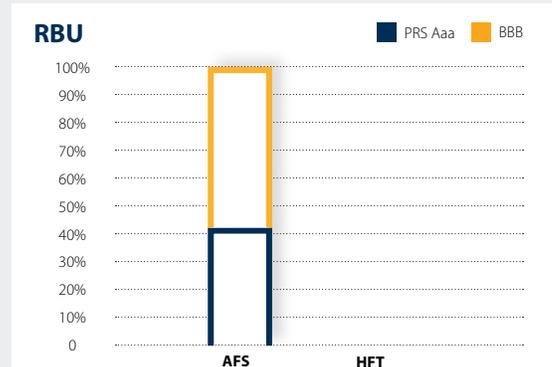
Securities	AFS	HFT	TOTAL	%
Philippines	1,075	109	1,184	96%
US		50	50	4%
Grand Total	1,075	159	1,234	100%

* Fcy Denominated converted @ USD/PhP49.93
* Amount in PhP Millions



Ratings	AFS	HFT	TOTAL	%
AAA		50	50	19%
BBB	106	109	215	81%
Grand Total	106	159	264	100%

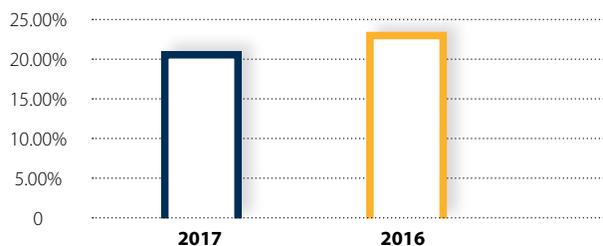
* Fcy Denominated converted @ USD/PhP49.93
* Amount in PhP Millions



Ratings	AFS	HFT	TOTAL	%
PRS Aaa	403		403	42%
BBB	567		567	58%
Grand Total	970	0	970	100%

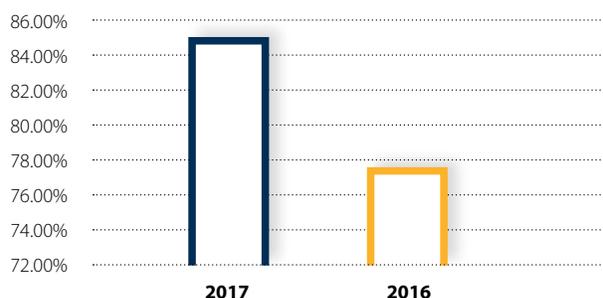
* Amount in PhP Millions
* AFS - Available for Sale
* HFT - Held for Trading
Source: Outstanding investment Report as of December 2016 from Treasury Operations

Liquid Assets to Total Assets



	2017	2016
Liquid Assets*	8,095,556,612	8,378,903,249
Total Assets	39,845,392,952	33,903,849,408

Loans to Deposit Ratio



	2017	2016
Loans and Receivables (net)	29,443,021,339	22,746,095,981
Total Deposits	34,622,708,800	29,483,028,640

Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices, and other market changes.

The market risk of the Bank originates from its holdings in its debt securities and foreign exchange. The Bank is exposed to potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rates.

The Bank uses Value-at-Risk particularly Historical VaR model to measure its market risk exposures. This is complemented by stress testing and scenario analyses to determine the Bank's ability to withstand market shocks and adverse market conditions.

VaR calculation and reporting are performed and monitored by the Risk Management Group (RMG) on a

daily basis. The Bank's market risk limit corresponds to its risk appetite which covers limits on the Bank's VaR, stop loss and nominal limits. The Bank's Market Risk Management Manual (MRMM) documents the guiding principles in the calculation procedures, reporting, and monitoring of VaR, including the frequency of updating. The RMG is in charge of identifying, measuring, analyzing, monitoring, and controlling market risk from the Bank's trading portfolios through VaR and other risk measurement tools.

The Treasury Group is responsible for the Bank's market risk-taking activities and for the implementation of the Bank's investment strategies.

ALCo, chaired by the Head of Treasury, is the senior review and decision-making body for the management of the Bank's over-all market risk position. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Bank manages asset/liability risks arising from both normal banking operations and from trading operations in financial markets. Daily monitoring of compliance to the policies, procedures and limits is performed by the RMG. The limits are annually reviewed by the ALCo and RMG and approved by the Risk Management Committee (RMC).

The Risk Management Committee (RMC) is a Board-level committee that oversees the Bank's exposure to market risks. The RMC reviews and controls the Bank's market risk management system, approves the market risk limits recommended by the RMG, and receives regular reports on the Bank's market risk exposures and management strategies from RMG.

In December 2017, the Bank has sought approval from the RMC on the new business models for the Treasury and Lending Portfolios in compliance with IFRS 9 standard.

The Bank's market risk exposure is at a moderate level as it accounts for only over 1% of the Bank's risk weighted assets for 2017. Capital charge for market risk exposure follow the standardized approach.

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR). EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from one-year standard deviation change in interest rates. EaR is calculated based on 99.0% confidence level. It is accomplished monthly, with quarterly stress test. EaR focuses on the interest-rate sensitive portfolios held by the Bank to maturity.

The Treasury Group (TG) is one of the risk-taking units of the Bank that is tasked to perform the funding and investment strategies recommended by the ALCo. The Bank's interest rate risk appetite is represented by its Interest Rate Risk in the Banking Book (IRRBB) limits structure, which includes the EaR limit. RMG is responsible for monitoring this limit. A breach in EaR limit would indicate potential losses. The ALCo is assigned to perform structural changes in the balance sheet in order to comply with EaR limits.

Foreign Currency Risk

Foreign currency risk is the risk of an investment's change in value due to an adverse movement in currency exchange rates. It arises due to a mismatch in the foreign currency assets and liabilities of the Bank.

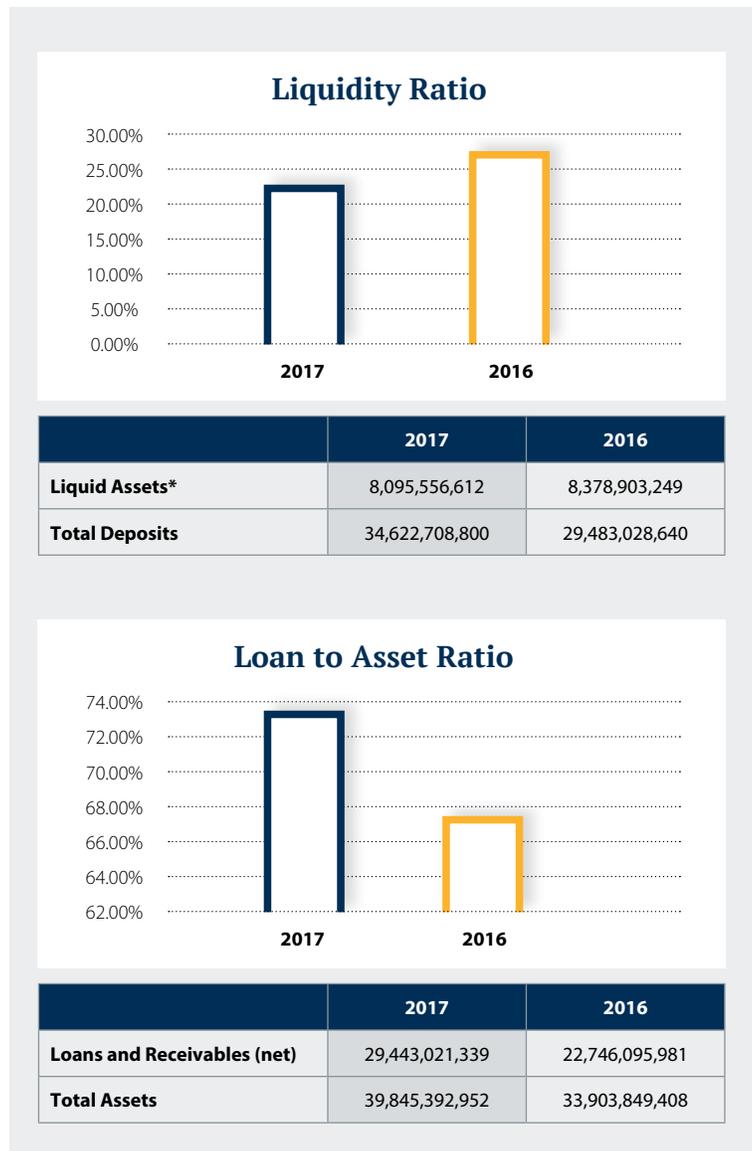
The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they become due without incurring unacceptable losses or costs.

ALCo is a senior management committee that plays a significant role in the Bank's asset-liability management and recommends investment strategies that aim to balance interest rate and liquidity risks in coordination with the risk-taking units of the Bank. RMG is in charge of identifying, measuring, analyzing, monitoring, and controlling the Bank's liquidity risk through Maximum Cumulative Outflow (MCO) and other risk metrics. RMG, together with the Treasury Head and ALCo, recommend and set the MCO limit approved by the RMC on an annual basis.

The Bank currently uses the MCO methodology to measure and manage liquidity risk exposure to assess its cash inflows against its outflows. The MCO



measures the amount of prospective funding that a bank will require at pre-specified future dates in a normal banking environment. The MCO captures the liquidity gap between maturing assets and liabilities. MCO is calculated by bucketing the cash flows from the Bank's assets, liabilities, and off-balance sheet items based on contractual cash flow terms or behavioral cash flow assumptions of the Bank's historical experience, current projections, and other qualitative considerations.

The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. This is supplemented by quarterly stress testing exercises to determine impact on the Bank's liquidity position, given various stress scenarios. The RMG prepares the MCO report on a monthly basis and is complemented by an analysis of the Bank's liquidity risk ratios.

Operational Risk

Operational Risk is the risk of direct or indirect loss arising from inadequate or failed internal processes; or external events. This includes both internal and external fraud; employment practices and workplace safety; weaknesses in products and business practices; damage to physical assets; business disruption and systems failure; as well as execution, delivery, and process management failures.

The Bank is guided by the principle of the 4 lines of defense in managing the Bank's risk management framework. The first line of defense are the business units that manage the risks through the embedded controls in their processes. The second line of defense is composed of the back office units tasked with implementing transactions ensuring embedded controls. Risk Management Group and Compliance Office function as the third line of defense. Operational risk monitoring is prudentially practiced to ensure that the Bank's risk management framework is applied and followed consistently. As independent reviewers of the efficiency of risk management systems and controls, Internal Audit serves as the fourth line of defense.

Sterling Bank of Asia uses the Risk and Control Self-Assessment (RCSA) and the Operational Loss Database to evaluate the Bank's operational risk profile. The RCSA is a tool employed by Sterling Bank of Asia to identify risks central to a business unit operation, measure the risk level's alignment with the allowable risks the Bank may undertake, and ensure the existing controls are effective in mitigating the risk events. The periodic conduct of RCSA is pivotal in a forward-looking risk evaluation that makes way for regular checks on the gap between risk exposure and risk appetite by means of thresholds used in the profiling of risk. Key Risk Indicators (KRI) are mapped into the RCSA to determine high risk areas and assess trigger levels impacting the Bank's appetite. KRIs are used as metrics that provide information on the level of exposure to a given operational risk which the organization has at a particular point in time. The Operations Loss Database on the other hand, reflects information on the operational loss experience of the Bank. Such losses are regularly reported to the Risk Management Committee.

The Bank also has a Business Continuity Management Program (BCMP) to ensure the continuity of service delivery to clients in case of a disaster scenario as one of the ways to mitigate reputational risk. The program provides processes and procedures for the

restoration of the Bank's core business activities, responding to varying levels of disruption, and factoring different scenarios including but not limited to loss of personnel, inability to access bank premises, and system interruption. In 2017, as part of its program for continuous improvements, the Bank put in place a pandemic risk management framework to beef up the Bank's resilience against these threat scenarios. Plans are periodically tested and enhanced as necessary to keep plans current, fully functional and able to address the operational impacts of a disaster. Critical business units are identified beforehand and prepared to guarantee performance of critical banking activities and functions to safeguard public interest and Sterling Bank of Asia's franchise.

In the banking sector where technology is a critical component in the operations and delivery of financial products and services, cybersecurity risks are a major consideration. These threat vectors coupled with the requirements for the Data Privacy Act (DPA) implementation highlight the fact that the Information Security (InfoSec) function is now a key focus area. Given these, the Bank has undertaken various InfoSec initiatives to improve the Bank's security posture, including a more aggressive awareness campaign for bank personnel. The Bank also adopted a committee approach for DPA compliance and have designated five Data Protection Officers to cover the various aspects of the implementation, namely, Compliance, Risk, Information Technology, Legal, and Security.

Capital charge for operational risk follows the basic indicator approach. For 2017, operational risk accounts for 6.77% of the Bank's risk weighted assets.

Compliance Risk

The Bank's Compliance Program is the backbone of the compliance risk management system. This minimizes the Bank's compliance risk, which is the risk of loss due to non-compliance to rules, regulations, and laws. Relevant laws and regulations are identified by this system, which also monitors regulatory changes, and assesses operational and balance sheet implications. The Bank's compliance program also ensures that the relevant stakeholders are continuously educated and trained in compliance risk management. Compliance risk testing is also conducted for the business units. Capital charges arising from compliance risk is incorporated in the operational risk capital charge.

The constant threat of terrorist attacks in recent times underscores the role of financial institutions in curbing money laundering and terrorist financing. With this, the Bank has initiated strengthening of its Money Laundering and Terrorist Financing Preventive Program (MLPP) as part of its commitment to protect the integrity and confidentiality of banking transactions and ensure that the Bank shall not be used as a money laundering vehicle and conduit for proceeds of unlawful activities. For 2017, major initiatives include the creation of the Bank's Anti-Money Laundering (AML) Committee to strengthen governance structure. The committee is tasked to perform oversight functions to ensure compliance to AML regulations.

Key components of the Bank's MLPP include the customer identification and acceptance process which provide for the mechanism for due diligence, Know-Your-Customer (KYC), and proper vetting during client on-boarding. This is supported by an ongoing monitoring system to track transactions, significant movements including covered and suspicious transaction monitoring that provides for triggers, and control mechanisms to validate whether client's financial transactions are within assessed capacities. Continuing education in the area of AML is provided by the Bank's Center for Learning and designed by the Compliance Office to keep employees abreast of money laundering schemes and appropriate risk mitigation, evolving regulatory standards, and to drive a culture of AML compliance. As celebrated money laundering cases point out risk within the organization, a critical component of the Bank's AML Program is the Know-Your-Employees (KYE) process where existing and prospective Sterling Bankers are subjected to a vetting process to ensure that each member of the organization upholds to expectation of financial professionals that occupy positions of trust and confidence.

The Bank's Compliance Office (CO) takes charge of the compliance program, monitors regulatory changes, and assesses its operational and balance sheet implications. The CO reports to the Corporate Governance Committee, which provides the Board with information pertaining to the status of compliance risks and controls. The CO also ensures that the relevant stakeholders are continuously educated and trained on new regulations. Under the CO is a dedicated team for AML monitoring and compliance testing.

Meanwhile, Legal Risk is centrally managed by the Legal Department. Proactive legal risk management is implemented through control structures such as Legal Office sign-off procedures, issuance of legal opinions and continuous training and awareness campaigns.

Strategic Risk

The risk of potential losses arising from unsuccessful business plans and the inability to properly respond to the changes in the business environment is known as Strategic Risk. This includes impacts of adverse business decisions, improper implementation of processes and failure to keep up to the changes in the industry.

The Bank's direction and strategic plans are guided by the Board of Directors (BOD) hand in hand with the Senior Management Committee (SMC). The BOD and SMC ensure that the strategies, resources and quality of implementation are compatible with the Bank's goals. These are echoed on the specific business plans of the different units of the Bank. Specific strategies of the groups toward the goals of the Bank consider the risks that each is specifically exposed to. Risks associated with future plans both for existing services and products for enhancement as well as new services and products are deliberated upon prior to implementation. Group performances are regularly monitored and assessed vis-à-vis the set objectives by the Senior Management Committee and the Executive Committee/BOD.

Reputational Risk

Reputational Risk is known as the current and prospective impact on earnings or capital arising from negative public opinion. This type of risk is managed by handling all aspects that may significantly affect or pose a threat to the reputation of the Bank. Thus, any exercise or circumstance that may cause a negative impact on the Bank through public's trust; decrease in customer base; operational disruption or legal suits must be reduced, mitigated and handled effectively.

SBA's response remained to be on the conservative side in terms of the changing risk environment that now includes the rise of social media as a platform for both positive and negative feedback. Thus, client concerns are largely coursed thru the 24/7customer management hotline. The Bank received 1,615 complaints through the Customer Management Department in the year 2017. These concerns were handled with utmost attention and in accordance with the Bank's policies and regulatory expectations.

Capital Management Framework

Risk and Capital Management are among the Bank's key strategic activities aimed at optimizing the level and mix of bank resources to increase shareholder value and ensure capital sufficiency to support asset growth and expansion.

CAPITAL MANAGEMENT OBJECTIVES

The Bank's risk-taking activities are determined largely by its level of capital. As such, risk and capital management are some of the Bank's key strategic activities established with the following objectives:

- Maintaining capital ratios above the minimum regulatory capital with sufficient buffer to absorb shocks in periods of stress
- Ensuring capital availability to support asset growth and business activities
- Balancing risk and reward with the aim of achieving RWA optimization

GOVERNANCE

The Board of Directors (BOD) through the Bank's Risk Management Committee (RMC) is in charge of strategic allocation of risk capital. The BOD's key focus on risk and capital management is to oversee alignment of corporate strategies and risk-taking activities with capital planning in order to ensure best use of capital and optimize level and mix of resources. The RMC is assisted by the Risk Management Group (RMG), which is a unit independent of the business lines, in the exercise of its oversight functions. RMG is in charge of providing the RMC with an aggregated and firm-wide view of capital adequacy.

The heads of the business units, as the risk taking units of the Bank, are accountable for capital risk. Activities of the business units are guided by the Bank's capacity to absorb risks and capital utilization for such activities.

Recommendations relating to capital utilization are taken up in the Asset and Liability Committee (ALCo), being the bank committee in charge of balance sheet management. The objectives are to be able to actively manage the business portfolio, rationalize business mix, reallocate capital as necessary, and align activities with funding capacity.

The Credit Committee (CreCom), which screens all big-ticket credit items, requires the approval of the President, the Loan Committee and the Board, and the Loan Committee (LoanCom) which is the highest approving body for credit exposures factors in risk and capital utilization considerations in its credit decision-making process.

Capital Adequacy Ratio

December 31 (in Millions)

	2017	2016
Tier 1 Capital	2,482.597	2,259.580
Tier 2 Capital	1,556.512	1,005.247
Gross Qualifying Capital	4,039.109	3,264.827
Less: Regulatory Deductions	8.775	29.236
TOTAL QUALIFYING CAPITAL	4,030.334	3,235.591
Credit Risk Weighted Assets	29,755.054	23,686.572
Market Risk Weighted Assets	396.790	375.501
Operational Risk Weighted Assets	2,187.795	2,091.337
TOTAL RISK WEIGHTED ASSETS (RWA)	32,339.639	26,153.410
Tier 1 Capital Ratio Net	7.65%	8.53%
Total Capital Adequacy Ratio	12.46%	12.37%

Total Tier 1 Capital

	2017	2016
Paid-up Common Stock	2,070.000	2,070.000
Retained Earnings	197.021	119.664
Undivided Profits	206.409	74.932
Cumulative Foreign Currency Translation	9.167	(5.016)
Gross Amount	2,482.597	2,259.580
Deductions:		
Deferred tax assets	8.775	29.236
Unbooked Valuation	-00	-00
Total Deductions	8.775	29.236
NET TIER 1 CAPITAL	2,473.822	2,230.344

Total Tier 2 Capital

	2017	2016
Preferred Stock	300.00	300.00
General Loan Loss Provision	261.512	207.747
Unsecured Subordinated Debt	995.000	497.500
NET TIER 2 CAPITAL	1,556.512	1,005.247

CAPITAL MANAGEMENT MECHANISM

Target capital ranges are set by the BOD, providing for an Early Warning System and trigger mechanism for any required bank action. Target capital ratios take into consideration the Bank's strategic directions and business objectives, its growth and expansion plans, as well as a buffer for shocks under stressed scenarios.

In order to address noted deficiencies, capital ratios are calculated on a monthly basis to monitor capital adequacy and trigger action plans, should capital ratios fall below acceptable levels. Risk exposures are likewise regularly monitored to determine capital utilization as part of the Bank's management of the risk and reward trade-off. Results of monitoring activities are reported monthly to the Senior Management Committee (SMC) as well as to the Risk Management Committee (RMC). This provides for an escalation protocol to address instances of near breach and/or breaches in Board-set limits, so as to trigger decisions for a timely and appropriate bank response.

The Bank's system of risk limit provides for structure that allows for diversification across risk exposures and risk capital utilization. These limits are reflective of the

Bank's risk tolerance and capacity as set by the Board. Stress testing is an integral part of the Bank's risk and capital management system and is used to measure impact on the Bank's capital position of pre-defined scenarios reflecting various degrees of severity. Stress testing exercises factor in both internal stress scenarios developed on the Bank's portfolio and sub-portfolio as well as regulatory stress scenarios required by the BSP as part of its oversight of the Philippine banking sector.

Simulations to measure and test impact on capital levels of various business and economic scenarios is performed. Further simulations on impact of proposed significant investments and loan exposures are executed to provide for a feedback mechanism on capital utilization to balance risk reward trade-off.

CAPITAL STRUCTURE

For 2017, the Bank, in order to support its growth and expansion, issued PhP1 billion in Tier 2 notes. This effectively increased capital base by PhP500 million, notwithstanding capital accretion through earnings, after the exercise of call option on the earlier issued Tier 2 notes. Capital Adequacy Ratio (CAR) for 2017 stood at 12.46%, well above regulatory thresholds.

	CREDIT RISK		MARKET RISK		OPERATIONAL RISK	
	2017	2016	2017	2016	2017	2016
On - Balance Sheet (Net Of Deductions)	29,738.378	23,671.386				
Off - Balance Sheet	10.376	12.649				
Counterparty (Trading/Banking)	6.300	2.537				
Interest Rate Exposure	-	-	261.609	304.700		
Foreign Exchange	-	-	135.182	70.801		
Operational Risk - Weighted Assets			-	-	2,187.795	2,091.337
Total	29,755.054	23,686.572	396.790	375.501	2,187.795	2,091.337
Capital Requirements	2,975.505	2,368.657	39.679	37.550	218.779	209.134



The Management



Board of Directors



1 | Ruben C. Tiu Chairman of the Board

Mr. Ruben C. Tiu, 62, Filipino, is the Chairman of the Bank's Board of Directors. Mr. Tiu is concurrently the Chairman of the Board of Directors and the President of Aldex Realty Corporation, Hotelsystems Asia, Inc., Star Equities, Inc., JTKC Land, Inc., Oakridge Properties, Inc., Union Pacific Ace Industries, Inc., Pan-Asean Multi Resources Corporation, Demmik Holdings, Inc., and Demmik Realty, Inc. He is likewise the Chairman of the Board of Discovery World Corporation, Discovery Leisure Co., Inc., and Discovery Country Suites, Inc.; Director and President of JTKC Leisure Holdings Corporation; and Director and Executive Vice President of JTKC Equities, Inc. His other directorships include Palawan Cove Corporation, Cay Islands Corporation, Tera Investments, Inc., Sonoran Corporation, and I-Remit, Inc. He is also the President of Club Asia, Inc.

Mr. Tiu holds a Bachelor of Science Degree in Business Administration from De La Salle University.

2 | Gregorio T. Yu Vice Chairman of the Board

Mr. Gregorio T. Yu, 59, Filipino, is presently the Vice Chairman of the Board of Directors. He is concurrently a Director and/or Chairman of the Board or President of the following companies: Auto Nation Group, Inc. (Chairman), CATS Automobile Corporation (Chairman), American Motorcycles, Inc. (Chairman), CATS Asian Cars, Inc., Philippine Airlines, Inc., PAL Holdings, Inc., Glyph Studios, Inc., Philippine Bank of Communications (PBCOM), Unistar Credit and Finance Corporation, Philequity Management, Inc., Prople BPO, Inc., CMB Partners, Inc., Nexus Technologies, Inc., Jupiter Systems Inc., Wordtext Systems, Inc., Domestic Satellite Corporation (President), Lucky Star Network Communications, Inc. (Chairman and President). Mr. Yu is also an Independent Director of I-Remit, E-business Services, Inc., ISM Corporation, and Vantage Equities, Inc., board member of Ballet Philippines, and Manila Symphony Orchestra and Trustee in Xavier School and Xavier School Educational and Trust Fund Inc.

He likewise held executive positions at The Chase Manhattan Bank, N.A., Chase Manhattan Asia Limited Hong Kong, The International Exchange Bank, and Philequity Fund Inc. to name a few. He also served as a Trustee at the Government Service Insurance System (GSIS) for 6 years.

Mr. Yu holds a master's degree in Business Administration from the Wharton School

– Graduate Division of the University of Pennsylvania and a Bachelor of Arts Degree in Economics from De La Salle University where he graduated summa cum laude.

3 | Cecilio D. San Pedro Director, President and CEO

Mr. Cecilio D. San Pedro, 57, Filipino, is a Director, as well as the President and CEO of Sterling Bank of Asia. Mr. San Pedro assumed his current position on July 1, 2015. Before ascending to the Bank's presidency, he was formerly a Senior Executive Vice President (SEVP) – Chief Operating Officer (COO) and concurrent Treasurer and Head of the Treasury Group.

Mr. San Pedro holds a Bachelor of Science Degree in Business Administration, major in Accounting, from the University of the East, and completed degrees/courses in Corporate Finance Management and Strategic Business Economics at the University of Michigan Business School and the Center for Research and Communication (now University of Asia and the Pacific), respectively.

4 | Bansan C. Choa Director

Mr. Bansan C. Choa, 63, Filipino, is the Chairman of the Board of Directors of the following companies: Surewell Equities, Inc., I-Remit Inc., Confed Properties, Flexi Woodworks, Inc., Sure Fortune Properties, Inc., OLGC Psychological Services, Ferris Sobell Properties, Inc., Bleaushea Properties, Inc., and Merrytown Properties Corporation. He is also the Chairman of the Board of Trustees of Kassel Condominium Corporation and the Kabalikang ng Migranteng Filipino, Inc., the Treasurer of Banwood Construction Center, Inc. and Six Alps Corporation, the CEO of I-Remit, Inc. and the President of Philippine Retirement, Inc. Mr. Choa also holds the position of Board Adviser in Subdivision and Housing Developers, Inc. He is also a member of the National Real Estate Association and an Adviser to the Board of Organization of Socialized Housing Developers of the Philippines.

A certified public accountant, he was connected with the accounting firm of SGV & Co. and a member of the Philippine Institute of Certified Public Accountants (PICPA). He is also a licensed professional real estate broker, appraiser, and real estate consultant (with PRC Registration No. 0000002) and as one of the first real estate service board members.

Mr. Choa obtained his bachelor's degree in Commerce from De La Salle University and received his master's degree in Business Administration from the Ateneo Graduate School of Business. He has completed a course in housing finance at The Wharton Real Estate Center of the University of Pennsylvania, USA.

5 | William L. Chua Independent Director

Mr. William L. Chua, 66, Filipino, is an Independent Director of the Bank. Mr. Chua is concurrently the Chairman of the Board, President and CEO of WSI Philippines, Inc., Leadtech Systems, Inc., and LSI Leading Technologies, Inc. He is also the Vice Chairman of Wordtext Systems, Inc., Trustee of Adolfo S. Suzara Foundation, Inc., CEO and President of WS Pacific Publications, Inc., Chairman of the Board of Directors of Infotouch Systems, Inc., and Philmont Academic Solutions Inc. and member of the Board of Directors of the following companies: Nexus Technologies, Inc., Jupiter Systems, Inc., Information Technology Supplies Distributors, Inc., Aikontech Systems, Inc., WSI Phonecare, Inc. and WSI Technologies Corporation.

Mr. Chua holds a master's degree in Business Administration from the Santa Clara University and a Bachelor of Science Degree in Industrial Engineering from California State University in San Jose, CA.

6 | Juliet C. Go Independent Director

Ms. Juliet C. Go, 57, Taiwanese, is an Independent Director of the Sterling Bank of Asia.

Prior to becoming an Independent Director of the Bank, Ms. Go held the position of Country CEO and Director of Sodexo Philippines, Inc., Senior Assistant Vice President for Corporate Sales and Marketing in SM Retail, and Assistant Vice President for Business Development in Philippine Long Distance Telephone Company (PLDT). Ms. Go started her professional career with the Phinma Group in Corporate Planning and Research. She also did consulting work for the Ramon Magsaysay Award Foundation, the Senior Members Social Club, Inc., among others.

Ms. Go holds a Bachelor of Arts Degree in Interdisciplinary Studies from the Ateneo de Manila University.

Board of Directors



7 | Harris Edsel D. Jacildo

Director

Mr. Harris Edsel D. Jacildo, 56, Filipino, is a Director of the Bank. Mr. Jacildo is also a Director and the President and COO of I-Remit, Inc. He is likewise a member of the Board of Directors of the following companies: I-Remit Global Remittance Ltd. (UK), I-Remit New Zealand Limited, I-Remittance Singapore Pte. Ltd., Lucky Star Management Ltd. (HKG), and Worldwide Exchange Pty. Ltd., as well as a member of the Board of Trustees of Kabalikang Migrang Pilipino (KAMPI).

Mr. Jacildo holds a Bachelor of Science Degree in Applied Economics from De La Salle University and later went on to complete a Basic Management Program at the Asian Institute of Management.

8 | Nilo L. Pacheco, Jr.

Independent Director

Mr. Nilo L. Pacheco, Jr., 62, Filipino, is an Independent Director of the Bank. He is currently a part-time professor and Vice President for Finance in De La Salle College of St. Benilde, and Chairman of the Investment Committee and a member of the Retirement Commission of the Catholic Education Association of the Philippines. Previously, Mr. Pacheco has had over 27 years of commercial banking experience holding senior positions in several banks.

Mr. Pacheco holds a Bachelor of Arts Degree major in Mathematics from De La Salle University where he graduated magna cum laude. He likewise attended the Advanced Management Program in Harvard Business School.

9 | Atty. A. Bayani K. Tan

Director and Corporate Secretary

Mr. A. Bayani K. Tan, 62, Filipino, is a Director of the Bank. He is also a Director, Corporate Secretary or both of the following reporting and/or listed companies: Belle Corporation (since May 1994, Publicly Listed), Coal Asia Holdings, Inc. (since July 2012, Publicly-Listed), Discovery World Corporation (since March 2013, Publicly-Listed), I-Remit, Inc. (since May 2007, Publicly-Listed), Pacific Online Systems Corporation (since May 2007, Publicly-Listed), Philequity Dividend Yield Fund, Inc. (since January 2013), Philequity Dollar Income Fund, Inc. (since March 1999), Philequity Fund, Inc. (since June 1997), Philequity Peso Bond Fund, Inc. (since June 2000), Philequity PSE Index Fund, Inc. (since February 1999), Premium Leisure Corporation (since December 1993,

Publicly-Listed), TKC Metals Corporation (since February 2007, Publicly-Listed), Tagaytay Highlands International Golf Club, Inc. (since November 1993), Tagaytay Midlands Golf Club, Inc. (since June 1997), The Country Club at Tagaytay Highlands, Inc. (since August 1995), The Spa and Lodge at Tagaytay Highlands, Inc. (since December 1999) and Vantage Equities, Inc. (since January 1993, Publicly-Listed). He is the Managing Partner of the law offices of Tan Venturanza Valdez (since it was established in 1988), Managing Director/President of Shamrock Development Corporation (since May 1988), Director of Destiny LendFund, Inc. (since December 2005), Pascual Laboratories, Inc. (since March 2014), and Pure Energy Holdings Corporation (since October 2016), President of Catarman Chamber Elementary School Foundation, Inc. (since August 2012), Managing Trustee of SCTan Foundation, Inc. (since 1986), Trustee and Treasurer of Rebisco Foundation, Inc. (since April 2013) and Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. (since February 2011).

Mr. Tan holds a Master of Laws Degree from New York University (Class of 1988) and earned his Bachelor of Laws degree from the University of the Philippines (Class of 1980) where he was a member of the Order of the Purple Feather (U.P. College of Law Honor Society) and ranked ninth in his class. Mr. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts major in Political Science degree from San Beda College (Class of 1976), where he graduated class valedictorian and was awarded the medal for Academic Excellence.

10 | Bernadette Cindy C. Tiu

Director

Ms. Bernadette Cindy C. Tiu, 38, Filipino, is a Director of the Bank. She is concurrently the Head of the Finance Division and the Chief Financial Officer of I-Remit, Inc., as well as the Vice President of Fidelity Securities, Inc.

Ms. Tiu holds a Bachelor of Science Degree in Business Administration, major in Accounting and Finance, from Boston University School of Management.

11 | John Y. Tiu, Jr.

Director

Mr. John Y. Tiu, Jr., 41, Filipino, is a Director of the Bank. Mr. Tiu is concurrently the Chairman of the Board and President of Tera Investments, Inc., Balay Holdings Inc., Discovery Fleet Corporation, Long Beach Property Holdings, Inc., Ninety Nine

Urdaneta Holdings Corporation, One Luscar Corporation, Cay Islands Corporation, Palawan Cove Corporation, Sonoran Corporation, One Urdaneta Corporation, JT Perle Corporation, and One Cerrada Corporation. He is also a Director and the President of the following companies: Discovery World Corporation, Discovery Country Suites, Inc., The Discovery Leisure Company, Inc., Lucky Cloud 9 Resort Inc., and Euro-Pacific Resorts Inc. He is also a Director and the Treasurer of JTKC Equities, Inc., JTKC Land, Inc., and Star Equities, Inc. as well as Director and the First Vice President of JTKC Leisure Holdings Corporation, and Director and Executive Vice President of Aldex Realty Corporation. Lastly, Mr. Tiu is also a member of the Board of Directors of Enderun Colleges, Inc., I-Remit, Inc., Oakridge Properties, Inc., and SageSoft Solutions, Inc.

Mr. Tiu holds a Bachelor of Science Degree in Electrical Engineering with a minor degree in Mathematics from the University of Washington, Seattle, Washington.

12 | Atty. Lamberto R. Villena

Director

Atty. Lamberto R. Villena, 70, Filipino, was the Bank's former President and Chief Executive Officer (CEO) from December 28, 2006 to June 30, 2015. He concurrently sits as a member of the Board of Directors of Discovery World Corporation. Prior to joining Sterling Bank of Asia, Atty. Villena was a former EVP for Commercial Banking at RCBC where he also had 30 years of banking experience holding various senior positions in Credit, Corporate Banking, Remedial Management, Treasury, and Consumer Banking.

Atty. Villena holds a Bachelor of Laws Degree from the University of the Philippines and is a member of the Philippine Bar. He also holds a master's degree in Business Administration from the same university, and is an alumnus of the Ateneo de Manila University.

13 | Ignatius F. Yenko

Director

Mr. Ignatius F. Yenko, 65, Filipino, is a Director of the Bank. He is concurrently a Director and the Vice Chairman of TKC Metals Corporation, a member of the Board of Directors of Leisure Resorts World Corporation (LRWC), an Independent Director in Premiere Horizon Alliance, and the Chief Finance Adviser/Director of SlashdotPh Corporation.

Mr. Yenko holds a master's degree in Business Administration from the Asian Institute of Management and a Bachelor of Arts Degree in Economics from the Ateneo de Manila University.



President & Business Line Group Heads



1 | Cecilio D. San Pedro

57, Filipino, President and CEO

Mr. San Pedro joined the Bank in November 2011. Prior to joining the Bank, he was the Executive Director of Global/Local Markets and Country Treasurer of The Royal Bank of Scotland (formerly ABN AMRO) for eight years. He also worked with Bank of America NT & SA for more than 20 years where his last post was Principal – Global Markets Head and Country Treasurer.

Mr. San Pedro holds a Bachelor of Science Degree in Business Administration, major in Accounting, from the University of the East and has completed degrees/courses in Corporate Finance Management and Strategic Business Economics from the University of Michigan Business School and the Center for Research and Communication (now University of Asia and the Pacific), respectively.

4 | Clayton T. Lee

49, Filipino, Executive Vice President and Head – Treasury Group

Mr. Lee's banking career includes years of Treasury experience at various local and foreign banks in the Philippines, namely Allied Bank, Bank of America and The Royal Bank of Scotland (formerly ABN AMRO). His last position was Vice President - Global/Local Markets and Foreign Exchange head. He joined in November 2011.

Mr. Lee graduated from the Ateneo de Manila University with a Bachelor of Arts Degree in Economics.

2 | Ralph B. Cadiz

51, Filipino, Executive Vice President and Head – Retail Banking Group

Mr. Cadiz held various positions in retail banking, consumer lending and remittance at UCPB, Solid Bank, International Exchange Bank, Union Bank, Security Bank and Export Bank. His last position was Head of Branch Banking and Consumer Lending with a rank of Senior Vice President at Export Bank before joining last September 2010. He has served as Head of the Bank's Retail Banking Group from 2010 up to present.

Mr. Cadiz obtained a Bachelor of Science Degree in Commerce, major in Business Administration from the University of Santo Tomas.

5 | Isabel Y. San Pablo

57, Filipino, Senior Vice President and Head – Consumer Lending Group

Ms. San Pablo handled key positions for the Consumer Lending business of Maybank and RCBC Savings prior to starting her career with Sterling Bank of Asia as Head of Consumer Marketing in January 2013. She then became the Consumer Lending Group Head the same year.

Ms. San Pablo graduated from the University of the Philippines with a Bachelor of Arts Degree in Economics.

3 | Benson

J. Hari-Ong
52, Filipino, Executive Vice President and Head – Commercial Lending Group

Mr. Hari-Ong brings to the Bank his expertise on Corporate Banking holding senior positions at Rizal Commercial Banking Corporation prior to joining in March 2008.

He holds a Bachelor of Science Degree in Industrial Management minor in Mechanical Engineering from De La Salle University and earned his postgraduate master's degree in Business Administration from the same university in 1990.

6 | Hazel M. Navarro

43, Filipino, Vice President and Trust Officer

Ms. Navarro started her banking career in Traders Royal Bank. She has worked as Trust Investment officer for RCBC Savings Bank and continued her expertise when she joined Sterling Bank of Asia in September 2016.

Ms. Navarro studied at Assumption College and holds a Bachelor of Science Degree, major in International Business.

Senior Officers



1 | Luisito S. Mayor
Senior Vice President
Operations Group Head



2 | Dalisay N. Rubio
Senior Vice President
Controllership Group Head

3 | Dax C. Albarece
First Vice President
Consumer Lending Visayas
and Mindanao Head

4 | Cherie C. Ballesteros
First Vice President
RBG Area 1, South Luzon
and Visayas Head

5 | Ma. Dulce Y. Edillor
First Vice President
Human Resources Group Head



6 | Michelle Ohrella G. Oira
First Vice President
Risk Management Group Head



7 | Honesto M. Roque, Jr.
First Vice President
Auto Loans Head

8 | Lilia P. Santos
First Vice President
Commercial Lending 1 Head

9 | Ronald C. Santos
First Vice President
Treasury Marketing Head

10 | Enrique D. Tan
First Vice President
Commercial Lending 2 Head

11 | Jose Eduardo G. Acayan
Vice President
Treasury Marketing Officer

**12 | Marc Christopher
U. Carlos**
Vice President
Domestic Markets and Liquidity Head



13 | Grego S. Cervantes, Jr.
Vice President
RBG Area 2, Central & North Luzon,
and Mindanao Head

14 | Girlie C. Galang
Vice President
Chief Compliance Officer

15 | Mary Joan T. Garcia
Vice President
MIS/Budget Head

16 | Rinaldi O. Gonzales
Vice President
Technology Operations Head

17 | Dan C. Guevara
Vice President
Center for Learning Head

18 | Celia A. Gutierrez
Vice President
Caloocan Branch Head





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19 | Marie Angela M. Hing
Vice President
International Markets Head

20 | Henry G. Hung
Vice President
Application Systems Head

21 | Jose S. Ison, Jr.
Vice President
Commercial Lending 3 Head

22 | Marilou B. Labay
Vice President
Financial Market Sales Head

23 | Ethel L. Peralta
Vice President
Management Support Services Head

24 | Candice P. Quianzon
Vice President
Real Estate Loans Head



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25 | Marife N. Rudio

Vice President
Credit Risk Head

26 | Jose Antonio C. Salvacion

Vice President
Chief Security Officer

27 | Ruby N. Samson

Vice President
Application Testing and User Support Head

28 | Arlene N. Siongco

Vice President
Compensation & Benefits Head

29 | Atty. Alma Valerie C. Soriano

Vice President
Legal Services Group Head

30 | Joseph T. Sulit

Vice President
RBG Support Head

31 | Joselito V. Ty

Vice President
Quality Assurance and Branch Operations Head

32 | Marilou B. Villanueva

Vice President
Foreign Exchange and Derivatives Head

33 | Norwina L. Reyes

Senior Manager
Internal Audit Group Acting Head

Audited Financial Statements



STERLING BANK OF ASIA INC.
(A Savings Bank)

Financial Statements
December 31, 2017 and 2016

With independent auditors' report provided by



REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Sterling Bank of Asia Inc. (A Savings Bank)

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to the 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2017, but does not include the financial statements and our auditors' report thereon. The Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

- 2 -

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

REYES TACANDONG & CO.

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 0663-AR-3 Group A

Valid until August 30, 2020

BIR Accreditation No. 08-005144-006-2017

Valid until January 13, 2020

PTR No. 6607959

Issued January 3, 2018, Makati City

March 20, 2018

Makati City, Metro Manila

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2017	2016
ASSETS			
Cash and Other Cash Items		₱629,416,734	₱625,137,059
Due from Bangko Sentral ng Pilipinas		2,519,965,700	3,142,341,082
Due from Other Banks		4,333,505,485	1,753,369,339
Interbank Loans Receivable	6	453,983,478	2,356,564,116
Financial Assets at Fair Value through Profit or Loss	7	158,685,215	501,491,653
Available-for-Sale Financial Assets	8	1,174,250,651	1,373,954,718
Held-to-Maturity Investments	9	–	351,441,287
Loans and Receivables	10	29,443,021,339	22,746,095,981
Assets Held for Sale	11	263,687,853	210,179,719
Property and Equipment	12	452,463,399	450,259,559
Intangible Assets	13	298,792,117	285,209,686
Deferred Tax Assets	23	10,754,822	17,054,774
Other Assets	14	106,866,159	90,750,435
TOTAL ASSETS		₱39,845,392,952	₱33,903,849,408
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities	15	₱34,622,708,800	₱29,483,028,640
Manager's Checks		185,381,487	230,306,123
Accrued Interest, Taxes and Other Expenses	16	135,199,706	120,504,002
Unsecured Subordinated Debt	17	1,000,000,000	500,000,000
Income Tax Payable		25,003,577	26,204,165
Retirement Liability	21	67,313,121	72,072,910
Other Liabilities	18	892,731,930	746,667,892
Total Liabilities		36,928,338,621	31,178,783,732
Equity			
Common Stock	24	2,070,000,000	2,070,000,000
Perpetual Preferred Stock	24	300,000,000	300,000,000
Other Equity Reserves		(53,739,798)	(69,156,363)
Retained Earnings		600,794,129	424,222,039
Total Equity		2,917,054,331	2,725,065,676
TOTAL LIABILITIES AND EQUITY		₱39,845,392,952	₱33,903,849,408

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2017	2016
INTEREST INCOME ON:			
Loans and receivables	10	P1,954,304,495	P1,594,667,588
Investment securities	7	126,490,985	151,640,681
Interbank loans receivable	6	44,561,760	14,316,872
Due from Bangko Sentral ng Pilipinas and other banks		14,042,448	17,571,509
		2,139,399,688	1,778,196,650
INTEREST EXPENSE ON DEPOSIT LIABILITIES AND OTHERS			
	15	556,507,931	465,515,208
NET INTEREST INCOME		1,582,891,757	1,312,681,442
OTHER INCOME (CHARGES)			
Service charges, fees and commissions		210,373,274	208,631,504
Net losses from assets sold or acquired	11	(39,290,816)	(36,106,553)
Net foreign exchange gains		20,802,771	22,551,813
Net trading and securities gains (losses) from investment securities	7	8,136,059	(20,107,502)
Others - net		22,056,641	11,271,004
		222,077,929	186,240,266
OPERATING EXPENSES			
Compensation and fringe benefits		542,353,528	493,669,812
Taxes and licenses		217,956,169	178,080,231
Occupancy		118,555,684	104,148,174
Depreciation and amortization	12	71,035,702	81,817,477
Insurance		67,794,892	56,955,844
Representation and entertainment		64,823,572	66,414,447
Security, messengerial and janitorial		58,051,197	53,681,052
Others	22	289,017,806	227,875,187
		1,429,588,550	1,262,642,224
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES			
	10	88,838,080	52,638,700
INCOME BEFORE INCOME TAX		286,543,056	183,640,784
INCOME TAX EXPENSE (BENEFIT)			
Current	23	110,247,699	110,929,498
Deferred		(276,733)	(15,518,381)
		109,970,966	95,411,117
NET INCOME		P176,572,090	P88,229,667

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31	
		2017	2016
NET INCOME		₱176,572,090	₱88,229,667
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Item not to be reclassified to profit or loss -</i>			
Remeasurement gains (losses) on retirement liability, net of deferred tax	21	15,345,599	(114,088)
<i>Items to be reclassified to profit or loss:</i>			
Translation adjustment		14,183,116	5,266,173
Net unrealized gains (losses) on available-for-sale financial assets	8	(14,112,150)	122,844,008
		15,416,565	127,996,093
TOTAL COMPREHENSIVE INCOME		₱191,988,655	₱216,225,760

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31	
		2017	2016
COMMON STOCK			
Balance at beginning and end of year	24	₱2,070,000,000	₱2,070,000,000
PERPETUAL PREFERRED STOCK			
Balance at beginning and end of year	24	300,000,000	300,000,000
OTHER EQUITY RESERVES			
Cumulative Unrealized Losses on Fair Value			
Charges of Available-for-Sale Financial Assets			
Balance at beginning of year	8	(65,222,521)	(188,066,529)
Net unrealized gains (losses)		(14,112,150)	122,844,008
Balance at end of year		(79,334,671)	(65,222,521)
Cumulative Remeasurement Gains on Retirement Liability			
Balance at beginning of year		1,082,518	1,196,606
Remeasurement gain (loss), net of deferred tax	21	15,345,599	(114,088)
Balance at end of year		16,428,117	1,082,518
Cumulative Translation Adjustment			
Balance at beginning of year		(5,016,360)	(10,282,533)
Translation adjustment		14,183,116	5,266,173
Balance at end of year		9,166,756	(5,016,360)
		(53,739,798)	(69,156,363)
RETAINED EARNINGS			
Balance at beginning of year		424,222,039	335,992,372
Net income		176,572,090	88,229,667
Balance at end of year		600,794,129	424,222,039
		₱2,917,054,331	₱2,725,065,676

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱286,543,056	₱183,640,784
Adjustments for:			
Provision for credit and impairment losses on loans and receivables	10	88,838,080	52,638,700
Depreciation and amortization	12	71,035,702	81,817,477
Gain on disposal of held-to-maturity investments	9	(54,436,940)	–
Net losses from assets sold or acquired	11	39,290,816	36,106,553
Retirement benefits	21	18,978,817	17,315,355
Amortization of premium on held-to-maturity investments	9	6,076,301	2,685,995
Unrealized trading losses on financial assets at fair value through profit or loss	7	4,715,072	48,437,292
Net loss (gain) on sale of available-for-sale financial assets	8	752,622	(14,940,562)
Provision for impairment losses on assets held for sale	11	270,440	1,916,024
Operating income before working capital changes		462,063,966	409,617,618
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Financial assets at fair value through profit or loss		338,091,366	1,580,603,889
Loans and receivables		(7,040,187,142)	(4,368,661,590)
Other assets		(15,766,696)	952,661
Increase (decrease) in the amounts of:			
Deposit liabilities		5,139,680,160	2,594,042,507
Manager's checks		(44,924,636)	93,338,313
Accrued interest, taxes and other expenses		14,695,704	20,969,083
Other liabilities		146,064,038	82,373,419
Net cash generated from (used for) operations		(1,000,283,240)	413,235,900
Income tax paid		(111,797,315)	(44,904,988)
Retirement benefits and contributions paid	21	(1,816,322)	(8,000,000)
Net cash flows provided by (used in) operating activities		(1,113,896,877)	360,330,912
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Held-to-maturity investments		385,689,776	–
Available-for-sale financial assets		368,559,471	1,737,073,277
Assets held for sale		161,033,458	73,542,098
Property and equipment		161,382	1,997,935

(Forward)

		Years Ended December 31	
	Note	2017	2016
Additions to:			
Available-for-sale financial assets		(P169,608,026)	(P537,098,578)
Property and equipment	12	(65,269,802)	(38,690,031)
Computer software	13	(21,392,697)	(59,773,378)
Net cash flows provided by investing activities		659,173,562	1,177,051,323
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of unsubordinated debt		500,000,000	-
Payments of bills payable		-	(36,781,584)
Net cash flows provided by (used in) financing activities		500,000,000	(36,781,584)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		14,183,116	(8,831,827)
INCREASE IN CASH AND CASH EQUIVALENTS		59,459,801	1,491,768,824
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		625,137,059	688,754,312
Due from Bangko Sentral ng Pilipinas		3,142,341,082	3,107,652,243
Due from other banks		1,753,369,339	1,441,016,646
Interbank loans receivable	6	2,356,564,116	1,148,219,571
		7,877,411,596	6,385,642,772
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items		629,416,734	625,137,059
Due from Bangko Sentral ng Pilipinas		2,519,965,700	3,142,341,082
Due from other banks		4,333,505,485	1,753,369,339
Interbank loans receivable	6	453,983,478	2,356,564,116
		P7,936,871,397	P7,877,411,596
OPERATING CASH FLOWS FROM INTEREST			
Interest received		P1,954,304,495	P1,792,107,044
Interest paid		556,507,931	479,121,511
NONCASH INFORMATION			
Reclassification of loans and receivables to assets held for sale	11	P254,423,704	P224,332,862

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)**NOTES TO FINANCIAL STATEMENTS**

1. General Information

Sterling Bank of Asia Inc. (A Savings Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) and Bangko Sentral ng Pilipinas (BSP). The Bank is primarily engaged in the general business of savings and mortgage banking. The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions. The Bank was granted authority to engage in trust operations in 2008 and to issue foreign letters of credit in 2010.

As at December 31, 2017 and 2016, the Bank operates a total of 47 and 42 branches, respectively.

The Bank was formerly known as Far East Savings Bank (FESB) and originally issued with a Certificate of Incorporation by the SEC on January 20, 1998.

In 2006, JTKC Equities, Inc. (JEI), Surewell Equities, Inc. (SEI) and Star Equities, Inc. acquired all the outstanding shares of stock of FESB from the Bank of the Philippine Islands. In 2007, the change in corporate name of FESB to Sterling Bank of Asia Inc. (A Savings Bank) was approved by the BSP and the SEC.

In 2009, the BSP approved the Bank's application to acquire 100% of the shares of stock of Centennial Savings Bank (CSB). In 2010, as approved by the BSP and the SEC, the Bank, as the surviving entity, merged with CSB.

As at December 31, 2017 and 2016, the ultimate parent of the Bank is JEI, through a direct interest of 40% and indirect interest of 30%, through Star Equities, Inc., a wholly owned subsidiary of JEI.

The registered office address of the Bank is at Sterling Bank Corporate Center, Greenhills, San Juan, Metro Manila.

The financial statements of the Bank as at and for the years ended December 31, 2017 and 2016 have been approved and authorized for issue by the Board of Directors (BOD) on March 20, 2018, as recommended for approval by the Audit Committee on March 13, 2018.

2. Summary of Significant Accounting Policies**Basis of Preparation and Compliance**

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC provisions.

Measurement Bases

The financial statements have been prepared under the historical cost basis, except for:

- financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets, which are carried at fair value,

- assets held for sale, which are measured at the lower of cost and fair value less cost-to-sell, and
- retirement liability, which is carried at the present value of defined benefit obligation less the fair value of plan assets.

Historical cost is generally based on the fair value of the consideration given in exchange for an asset. 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 transaction date.

The Bank uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 - quoted (unadjusted) market prices in active market 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.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 5, *Fair Value Measurement*.

Functional and Presentation Currency

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalent amounts in Philippine Peso, which is the functional and presentation currency of the Bank. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS effective January 1, 2017.

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from financing activities.

- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

The adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements of the Bank. Additional disclosures have been included in the notes to financial statements, as applicable.

New and Amended PFRS in Issue But Not Yet Effective

Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2017 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on the classification by reference to the business model within which these are held and its contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

The Bank has performed a preliminary assessment of the impact of PFRS 9 on the financial statements based on an analysis of the financial assets and liabilities and the facts and circumstances that exist as at December 31, 2017.

Apart from unquoted equity securities classified currently as AFS financial assets and measured at fair value through other comprehensive income that should be measured at fair value through profit or loss under PFRS 9, all the other financial assets and financial liabilities should continue to be measured on the same bases as currently under PAS 39.

Concerning impairment, the Bank is currently assessing the extent of the impact of expected credit loss. It is anticipated that the application of the expected credit loss model of PFRS 9 will result in earlier recognition of credit losses. However, it is not practicable to provide a reasonable estimate of that effect until the detailed review that is in progress has been completed.

The Bank has no transaction wherein hedge accounting requirements will apply.

- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).
- Amendment to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Effective for annual periods beginning on or after January 1, 2019 -

- PFRS 16, *Leases* – The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

For the Bank's non-cancellable operating lease commitments as at December 31, 2017, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Bank will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the Bank's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Bank completes the review.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Bank, except for PFRS 9 and 16. Additional disclosures will be included in the financial statements of the Bank, as applicable.

Financial Assets and Liabilities

Date of Recognition. The Bank recognizes a financial asset or liability in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. In the case of regular way purchases or sales of financial assets, recognition and derecognition, as applicable is done using settlement date accounting.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

“Day 1” Difference. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data observable from the market, the Bank recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss unless it qualifies for recognition as some other type of asset. For each transaction, the Bank determines the appropriate method of recognizing the “Day 1” difference.

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) held-to-maturity (HTM) investments, (c) loans and receivables and (d) AFS financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial instruments are acquired or incurred and whether these are quoted in an active market.

Financial Assets and Liabilities at FVPL. Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL.

Financial assets and liabilities are classified as held for trading if these are acquired for purposes of selling and repurchasing in the near term. Derivatives, including any separated embedded derivatives, are also classified as financial assets or financial liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge.

Financial assets or liabilities may be designated by the Bank upon initial recognition as at FVPL when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing related gains or losses on a different basis;
- the assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instruments 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 assets and liabilities at FVPL are recorded in the statement of financial position at fair value. Subsequent changes in fair value are recognized as “Net trading and securities gains (losses) from investment securities” in profit or loss. Interest earned or incurred is recognized as interest income or expense, respectively, while dividend income is recognized as other income when the right to receive payment has been established.

As at December 31, 2017 and 2016, investments in government securities are included in this category (see Note 7).

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value or at cost less impairment in the case of unquoted securities. The effective yield component of AFS debt securities, as well as the impact of restatement of any foreign currency-denominated AFS debt securities, is recognized in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS financial assets are recognized as “Net unrealized gains (losses) on AFS financial assets” in other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as “Net trading and securities gains (losses) from investment securities” in profit or loss. 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 or paid on the investments are recognized as “Interest income” in profit or loss using the effective interest method. Dividends earned on investments are recognized in profit or loss when the right of the payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within the 12 months from the end of reporting year.

As at December 31, 2017 and 2016, investments in government securities, private bonds and unquoted equity security are included in this category (see Note 8).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank has the positive intention and ability to hold to maturity. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest 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 effective interest rate. The amortization is recognized in “Interest income” in profit or loss. Gains and losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through amortization process. The losses arising from impairment of such investments are recognized as “Provision for credit and impairment losses” in profit or loss. The effect of the restatement of the foreign currency-denominated HTM investments is recognized in profit or loss.

When the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial asset. Subsequently, the Bank would be prohibited to classify any financial assets as HTM investments for the following two years.

The Bank cannot classify financial assets as HTM if the Bank, during the current financial year or during the two preceding years, sold or reclassified more than an insignificant amount of HTM investments before maturity (in relation to the total amount of HTM investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank.

As at December 31, 2016, investments in government debt securities are included in this category (see Note 9).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less allowance for impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" recognized in profit or loss on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" recognized in profit or loss. Gains or losses are recognized in profit or loss when loans and receivables are derecognized, as well as through the amortization process.

As at December 31, 2017 and 2016, cash and other cash items (COCI), due from BSP and other banks, interbank loans receivable, loans and receivables, refundable deposits and returned checks and other cash items (RCOCI) are included under this category (see Notes 6, 10 and 14).

For purposes of the statement of cash flows, cash and cash equivalents consist of COCI, due from BSP and other banks, and interbank loans receivable, with original maturities of three months or less from the date of acquisition and subject to insignificant risk in fluctuations in value.

Other Financial Liabilities. Other financial liabilities pertain to financial liabilities that are not held for trading and are not designated at FVPL at the inception of the liability.

Other financial liabilities are recognized initially at fair value less any direct transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2017 and 2016, deposit liabilities, manager's checks, accrued interest and other expenses, unsecured subordinated debt and other liabilities (excluding Philippine Deposit Insurance Corporation (PDIC), withholding taxes payable and statutory obligations) are included under this category (see Notes 15, 16, 17 and 18).

Derecognition of Financial Assets and Liabilities. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of 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 pay.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Financial Guarantees. In the ordinary course of business, the Bank provides financial guarantees. Financial guarantees are initially recognized in the statement of financial position at fair value. Subsequently, the initial fair value is amortized over the term of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Reclassification of Financial Assets. A financial asset is reclassified out of the FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes the new amortized cost, as applicable.

A financial asset reclassified out of the AFS financial assets category is at its fair value on the date of reclassification. Any previous gain or loss that has been recognized in other comprehensive income is amortized to profit or loss over the remaining term of the investment using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recognized in other comprehensive income is reclassified from equity to profit or loss.

Reclassification is at the election of management and is determined on an instrument-by-instrument basis. In 2008, the Bank reclassified USD-denominated investment securities from AFS financial assets to HTM investments (see Note 8).

Impairment of Financial Assets. The Bank assesses at the end of each reporting year whether there is objective evidence that a financial asset or group of financial assets may be impaired.

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

For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of financial asset’s carrying amount over its net realizable value, normally based on the present value of the estimated future cash flows from the financial asset. The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. Time value is generally not considered when the effect of discounting is not material.

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

The carrying amount of an impaired financial asset is reduced to its net realizable value through the use of an allowance account. For an impaired financial asset, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the industry of the borrower. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for the assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions 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 year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly 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 as past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The restructured loan continues to be subject to an individual (calculated using the loan's original effective interest rate) or collective impairment. The difference between the recorded value of the original loan and present value of the restructured cash flows, discounted at the original effective interest rate is recognized as "Provision for credit and impairment losses" in profit or loss.

AFS Financial Assets. The Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of AFS debt investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recognized for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value. 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 recognized as part of "Interest income" in profit or loss. If, in the subsequent year, the fair value of a debt investment increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

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

Offsetting of Financial Instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts without being contingent on a future event and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously in all of the following circumstances:

- the normal course of business,
- the event of default, and
- the event of insolvency or bankruptcy of the Bank and/or its counterparties.

Financial assets and liabilities with master netting agreements are only presented net when those satisfy the eligibility of netting for all of the above criteria and not just in the event of default.

Property and Equipment

Land is stated at cost less any impairment in value. Depreciable property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year when 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 on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the property and equipment are as follows:

<u>Asset Category</u>	<u>Number of Years</u>
Building and condominium units	30
Furniture, fixtures and equipment	5
Leasehold rights and improvements	10 or the related lease term, whichever is shorter

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

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 profit or loss in the year the asset is derecognized.

Fully depreciated items are retained as property and equipment until these are no longer being used in the operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment loss are removed from the accounts, any resulting gain or loss is recognized in profit or loss.

Assets Held for Sale

Foreclosed assets are presented as assets held for sale in the statement of financial position and accounted for at the lower of cost and fair value less cost to sell. Foreclosed assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than continuing use. The cost of foreclosed assets includes the carrying amount of the related loan, less allowance for impairment losses, at the time of foreclosure. Impairment loss is recognized in profit or loss for any subsequent write-down of the asset to fair value less cost to sell.

Intangible Assets

Branch Licenses. Branch Licenses are capitalized on the basis of the costs incurred to acquire and of bringing the asset to its use in the operations. Branch licenses are not amortized and deemed to have an indefinite useful life as there is no foreseeable limit to the period over which these are expected to generate net cash inflows for the Bank.

Branch licenses are reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment. The change in assessment from indefinite to finite life will be accounted prospectively.

Computer Software. Computer software is measured on initial recognition at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Other Assets

Other assets include prepaid expenses, refundable deposits, other investments, documentary stamp taxes, stationary and supplies, RCOCI, deferred lease and others.

Prepaid Expenses. Prepaid expenses are expenses paid in advance and recorded as asset before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and charged to appropriate accounts in profit or loss when incurred. Prepaid expenses that are expected to be realized for no more than 12 months after the financial reporting year are classified as current assets. Otherwise, these are classified as noncurrent assets.

Impairment of Non-financial Assets

Property and equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Branch licenses are assessed for impairment annually either individually or at the cash generating unit (CGU) level, as appropriate. The Bank assesses at the end of the reporting year whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its 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. 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 assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

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 and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Equity

Common Stock. Common stock is classified as equity and is measured at par value per share issued. Incremental costs directly attributable to the issuance of new shares are recognized as deduction from equity, net of tax. Otherwise, these are recognized as expense in profit or loss.

Perpetual Preferred Stock. Perpetual preferred stock is classified as equity if it is non-redeemable, or redeemable only at the Bank's option, and any dividends thereon are discretionary. Perpetual preferred stock is classified as a liability if this is redeemable on a specific date or at the option of the stockholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, effects of the changes in accounting policy and other capital adjustments.

Other Comprehensive Income (Loss). Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss), which is presented as "Other equity reserves," pertains to cumulative unrealized gains (losses) on AFS financial assets, cumulative remeasurement gains (losses) on retirement liability, and cumulative translation adjustment.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The following specific recognition criteria must also be met before revenue is recognized:

Interest Income. Interest income is recognized in profit or loss as the interest accrues, taking into account the effective yield of the asset.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Service Charges and Penalties. Service charges and penalties, which are presented under "Service charges, fees and commissions" in profit or loss, are recognized upon collection or being accrued when there is reasonable degree of certainty as to its collectability.

Fees and Commissions. Fees and commissions arising from providing transaction services are recognized upon completion of the transaction. Fees or components of the fees that are linked to a certain performance of a service or a condition are recognized after performing the service or fulfilling the condition.

Gains (Losses) from Assets Sold or Acquired. Income or loss from sale of properties acquired is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured. Gain or loss on foreclosure of properties is determined as the difference between the fair value upon foreclosure and the carrying amount of the loan. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property have been transferred to the Bank.

Foreign Exchange Gains. Foreign exchange gains arising from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized when earned.

Trading and Securities Gains (Losses). Trading and securities gains or losses represent results arising from trading activities including gains and losses from changes in fair value of financial assets at FVPL, and disposals of financial assets at FVPL, AFS financial assets and HTM investments, and gains and losses from derivatives transactions.

Costs and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

Employee Benefits

Short-term Benefits. Short-term employee benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits. The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the year.

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Bank recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements, and net interest expense or income in profit or loss. Net interest expense or income is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Bank recognizes restructuring-related costs.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The retirement liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) 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 the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where reassessment is made, lease accounting commences or ceases from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where a significant portion of the risks and benefits of ownership over the properties are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease term.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

Deferred Tax. Deferred tax is provided on all temporary differences at the end of the reporting year 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. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses 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 profit or loss nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the end of reporting year.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxing authority.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

Fiduciary Activities

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

Foreign Currency Transactions

RBU. Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

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 is determined.

FCDU. As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's functional and presentation currency at Philippine Dealing System (PDS) closing rate, and its income and expenses are translated at PDS weighted average rate for the year. Exchange differences arising from translation to foreign currency are recognized as other comprehensive income under "Cumulative translation adjustment." Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as "Cumulative translation adjustment" in other comprehensive income is recognized in profit or loss.

Related Party Relationship and Transactions

Related party transactions consist of transfer of resources, services or obligations between the Bank and its related parties.

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

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

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

Contingencies

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

Events after the Reporting Year

Subsequent events that provide additional information about the Bank's financial position at the reporting year are reflected in the financial statements when material. Subsequent events that are non-adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

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

Determining the Functional Currency. The Bank uses its judgment to determine the functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

Determining the Fair Values of Financial Instruments. The Bank carries certain financial assets and liabilities at fair value. When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank's financial instruments are disclosed in Note 5.

Determining the Classification of Financial Instruments. The Bank exercises judgments in classifying a financial instrument upon initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs the classification in the statement of financial position.

The Bank, in classifying financial assets, evaluates, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis, among others.

In addition, in classifying financial assets as HTM investments, the Bank evaluates its intention and ability to hold such investments until maturity. Ability to hold the debt securities to maturity is demonstrated by the availability of financial resources to continue to finance the investment until maturity. If the Bank fails to keep these investments until maturity other than in specific circumstances, it will be required to reclassify the entire portfolio as AFS financial assets. The investments would, therefore, then be measured at fair value and not at amortized cost.

The "tainting" rule requires the reclassification of the entire HTM portfolio to the AFS financial assets category and prohibits the Bank from using the HTM investments category during the reporting year and for the succeeding two full financial years, whenever it sells or reclassifies more than an insignificant amount of HTM investments before maturity, other than for permissible reasons.

In 2017, the Bank disposed all of its existing HTM investments resulting to a gain amounting to ₱54.4 million (see Note 9).

Determining the Classification of Lease Agreements. The Bank, as a lessee, has various existing lease agreements. The Bank has determined that the lessor retains all significant risks and benefits of ownership over the leased properties. Accordingly, these leases are accounted for as operating leases.

Rent expense amounted to ₱95.2 million and ₱83.1 million in 2017 and 2016, respectively (see Note 20).

Evaluating Contingencies. The Bank is currently involved in various legal proceedings pertaining to collectability of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank's defense in these matters and is based on an analysis of potential results. Based on the opinion of its legal counsels, the Bank is in a good position to secure a favorable judgment in most of these cases. Management therefore believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Bank's financial position and performance (see Note 27).

Assessing the Bank's Ability to Continue as a Going Concern. The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating Impairment Losses on Loans and Receivables. The Bank reviews the individually significant loans and receivables at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in estimating the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgment about the borrower's financial situation and the net realizable value of the collateral covering the loans and receivables. These estimates are based on a number of factors and assumptions which may differ in the future and may result to changes to the required allowance for impairment losses.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar characteristics, to determine whether provisions should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account the data from the loan portfolio, historical default and concentrations of risk and economic.

Provision for credit and impairment losses on loans and receivables amounted to ₱88.8 million and ₱52.6 million in 2017 and 2016, respectively (see Note 10). The allowance for credit and impairment losses on loans and receivables amounted to ₱519.1 million and ₱489.0 million as at December 31, 2017 and 2016, respectively (see Note 10).

The carrying amount of loans and receivables amounted to ₱29,443.0 million and ₱22,746.1 million as at December 31, 2017 and 2016, respectively (see Note 10).

Assessing Impairment Losses on AFS Financial Assets. The Bank determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Bank evaluates, among other factors, the future cash flows and the discount factor. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

No impairment losses on AFS financial assets were recognized in 2017 and 2016. The carrying amount of AFS financial assets amounted to ₱1,174.3 million and ₱1,374.0 million as at December 31, 2017 and 2016, respectively (see Note 8).

Assessing Impairment Losses on HTM Investments. The Bank determines that HTM investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Bank evaluates, among other factors, the future cash flows and the discount factor. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

No impairment losses on HTM investments were recognized in 2016. As at December 31, 2016, the carrying amount of HTM investments is ₱351.4 million (see Note 9).

Assessing Impairment on Branch Licenses. Branch license is determined to be an intangible asset with an indefinite useful life because there is no foreseeable limit to the period on which the branch license is expected to generate net cash inflows for the Bank. The branch license is required to be assessed for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

The branches have been identified as the CGU for purposes of impairment assessment of branch licenses.

When the branch license's fair value less cost of disposal is lower than its carrying amount, the recoverable amount is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset base of the branch being tested. The recoverable amount is most sensitive to the discount rate as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

No impairment losses were recognized in 2017 and 2016. As at December 31, 2017 and 2016, the carrying amount of the branch licenses amounted to ₱225.4 million (see Note 13).

Assessing Impairment on Property and Equipment and Computer Software. The Bank assesses impairment on property and equipment and computer software whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The relevant factors that the Bank whether to perform an asset impairment review include, among others, the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

There is no indication that property and equipment and computer software are impaired. Accordingly, no impairment losses were recognized in 2017 and 2016.

The carrying amounts of property and equipment and computer software are as follows:

	Note	2017	2016
Property and equipment	12	₱452,463,399	₱450,259,559
Computer software	13	73,402,117	59,819,686
		₱525,865,516	₱510,079,245

Estimating Useful Lives of Property and Equipment and Computer Software. The Bank estimates the useful lives of property and equipment and computer software and for purposes of computing depreciation and amortization based on the year over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and changed if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of property and equipment. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment and computer software would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment and computer software in 2017 and 2016, except for building and condominium units, and leasehold improvements. In 2017, the estimated useful life of building and condominium units was changed from 20 to 30 years. In 2016, the estimated useful life of leasehold improvements was changed from five to 10 years or lease term, whichever is shorter. The effect of the foregoing changes resulted to lesser depreciation amounting to ₱6.6 million in 2017 and additional depreciation amounting to ₱2.1 million in 2016.

The carrying amounts of property and equipment and computer software are as follows:

	Note	2017	2016
Property and equipment*	12	₱288,118,899	₱285,915,059
Computer software	13	73,402,117	59,819,686
		₱361,521,016	₱345,734,745

*Excluding land

Determining the Valuation and Classification of Foreclosed Assets. The Bank classifies foreclosed assets, which will be recovered principally through sale, as assets held for sale. The Bank is committed to sell and actively market the foreclosed assets at a price that is reasonable in relation to their current fair value. In determining the fair value of assets held for sale, sales price are analyzed by applying appropriate units of comparison, adjusted by differences between the subject property and related market data. Any subsequent write-down of the asset to fair value less cost to sell is recognized as impairment loss in profit or loss.

Provision for impairment loss on assets held for sale amounted to ₱270,440 and ₱1.9 million in 2017 and 2016, respectively (see Note 11). Assets held for sale amounted to ₱263.7 million and ₱210.2 million as at December 31, 2017 and 2016, respectively (see Note 11).

Determining the Retirement Liability. The determination of the obligation and cost of retirement benefits is dependent on selection of certain assumptions determined by management and used by the actuary in calculating such amounts. These assumptions include, among others, discount rate and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future years.

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 21 to financial statements.

Retirement liability amounted to ₱67.3 million and ₱72.1 million as at December 31, 2017 and 2016, respectively (see Note 21).

Assessing Realizability of Deferred Tax Assets. The Bank reviews the carrying amount of deferred tax assets at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets 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 profit will allow the deferred tax asset to be recovered.

The estimates of future taxable income indicate that deferred tax assets on certain temporary differences may be utilized in the future.

As at December 31, 2017 and 2016, net deferred tax assets amounted to ₱10.7 million and ₱17.1 million, respectively (see Note 23).

As at December 31, 2017 and 2016, deferred tax assets on certain temporary differences aggregating ₱459.2 million and ₱415.8 million, respectively, were not recognized (see Note 23). Management assessed that it is not probable that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized.

4. Financial Risk Management Objectives and Policies

The Bank has exposure to the following major risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market and interest rate risk

Risk Governance

The Bank's BOD has overall responsibility for the oversight of the Bank's risk management process. The established risk governance framework together with the supporting structure provides for the mechanism to ensure oversight and accountability for risk at various levels in the organization. Various board and management committees, which are responsible for developing, managing and monitoring specific risks that the Bank is exposed to, include the following:

1. Risk Management Committee (RMC)
2. Audit Committee (AC)
3. Loan Committee (LOANCOM)
4. Asset-Liability Committee (ALCO)
5. Credit Committee (CRECOM)
6. Fraud Committee (FRAUDCOM)
7. Anti-Money Laundering Committee (AMLCOM)

RMC is responsible for developing the Bank's risk strategy and the supporting risk management policies, ensuring the soundness of risk management practices in relation to the risks faced by the Bank.

RMC is supported by the Risk Management Group (RMG) in the exercise of its risk oversight functions. RMG, which is independent of the business units and is directly reporting to the RMC, performs daily market risk analyses to measure market risk exposures and ensure compliance with the Bank's policies, procedures and limit structures, and makes recommendations based on such analyses. RMG, likewise, monitors credit risk exposures and portfolio movements. They also take the lead in the development of the Bank's credit acceptance policies, risk classification and profiling through the administration of the internal credit rating system and the determination of appropriate levels of allowances for credit losses.

AC is responsible for monitoring the Bank's compliance with the risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks being faced by the Bank. AC is assisted in these functions by the Internal Audit (IA) Department. IA undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

LOANCOM is a Board Committee that acts as the highest approving body for loan and other credit related matters, except for directors, officers, stockholders and related interest (DOSRI) loans. It ensures that the credit approval or endorsement of credit facilities is based on a diligent, sound and prudent evaluation of the risks involved and is aligned with the Bank's strategic objectives in terms of asset quality.

ALCO is responsible for ensuring that the Bank maintains adequate liquidity, sufficient capital and the appropriate funding to meet business requirements and comply with regulatory requisites. It is also responsible for building a stable funding structure by managing the Bank's asset and liability profile. Moreover, it manages the Bank's financial position and ensures that the Bank's liquidity, capital and funding structure support the business strategies. It likewise establishes the Bank's asset-liability pricing policies.

CRECOM is the management level committee that evaluates and screens all credit proposals that requires the approval of the President, LOANCOM or BOD, and likewise monitors credit underwriting activities performed at management level. It ensures that credit risk is within the BOD established risk tolerance levels and that proposals comply with the credit underwriting standards as established in the Bank's policies and procedures.

FRAUDCOM is established in 2017 to properly address the increasing threat landscape for fraud incidents committed against the bank and its clients. The primary responsibility of the FRAUDCOM is to determine actions to be taken when a fraud incident is reported and recommend changes in the processes, procedures and policies of the bank whenever applicable.

AMLCOM is established in 2017 to assist the BOD in fulfilling its oversight responsibility over AML activities to ensure that the Bank complies with the provisions of the Anti-Money Laundering Act (AMLA), as amended, its Implementing Rules and Regulations (RIRR), and BSP regulations.

Credit Risk

Credit risk is the risk of financial loss to the Bank when a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arises largely from the lending, trade finance and investment activities. The Bank manages credit risk through an established risk control framework that provides for policies and guidelines to the business units together with a system of limits reflective of the Bank's risk tolerance and capacity. A monitoring mechanism is also in place to ensure that exposures to individual counterparties, related accounts, countries, and industries are within BOD established and approved limits and that any credit concentration is within acceptable levels.

While the Credit Risk Control Department of RMG (CRC-RMG) provides for an independent risk monitoring and control of credit exposures, each business unit is responsible for the quality and performance of its credit portfolio. As the first line of defense, business units are responsible for monitoring and controlling the credit risks in its portfolio. The CRC-RMG meanwhile, provides an independent evaluation of the Bank's credit risk exposure through review of loan proposals and credit processes, borrower risk assessments, and credit administration. This is complemented by regular audits of business units and credit processes undertaken by IA that provide for assurance and feedback mechanisms to determine sufficiency and effectiveness of established risk controls.

The Bank extends various types of loans, several on clean/unsecured basis, and others against hard collaterals and other form of securities. Personal and salary loans are generally granted on a clean/unsecured basis. Other consumer lending products are largely asset-backed financing with auto loans secured by chattel mortgage on the vehicles and real estate loans secured by first real estate mortgage on residential or commercial properties. The Bank's commercial/small-medium enterprise loans cover a mix of clean/unsecured (which includes those under personal guarantees) as well as secured credit facilities (i.e., those supported by real estate and chattel mortgages, guarantees and other registered securities). Estimates of fair value are based on the value of the collateral assessed at the time of the borrowing.

All loan applications, covering the different types of loans, undergo strict credit evaluation in accordance with established risk acceptance criteria. The essential elements that the Bank considers for all its credit dealings and account relationships are: favorable credit checking; good credit standing and track record with other counterparties, banks and trade partners alike; financial strength and cash generating capabilities (fund sourcing), which translate into determination of paying capacity that establishes repayment expectations; and acceptable collateral/security, if applicable. Furthermore, credit underwriting is performed within a framework of delegated credit authorities that take into account facility risks and magnitudes of potential exposures.

Management of Credit Risk

The BOD, through RMC and LOANCOM, is assisted in the monitoring and management of credit risk by the CRC-RMG, which continuously implements its risk control programs, in line with its oversight function over the Bank's lending activities. CRC-RMG is principally tasked with identifying, monitoring, reporting and controlling the Bank's credit risk. The specific functions of CRC-RMG are as follows:

- Takes charge of administering the Bank's lending policies, ensuring compliance by those concerned with continuous issuance of updates on policies and process guidelines for bank-wide implementation and compliance.

- Facilitates the activities of the CRECOM, whose main objective is to evaluate and screen loan proposals requiring approvals beyond line management levels.
- Classifies borrowing accounts according to several levels of risk, based on the internal credit risk rating system and loan portfolio assessments, to regularly determine loan impairments for the purpose of determining the appropriate loan loss reserves.
- Conducts credit stress testing and regularly evaluates and monitors the quality of the Bank's loan portfolio via the Portfolio Profile Report, as part of the scheme of controlling large concentration and group exposures.

Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements

The Bank's maximum exposure to the credit risk is equal to the carrying amount of the financial assets, except for the following loans and receivables:

	2017			
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk
Loans and receivables:				
Receivables from customers:				
Consumer loans ¹	P14,669,050,557	P13,509,949,083	P12,322,666,798	P2,346,383,759
Corporate loans ²	13,991,362,783	2,915,082,871	2,172,737,602	11,818,625,181
	28,660,413,340	16,425,031,954	14,495,404,400	14,165,008,940
Sales contracts receivable ³	21,863,712	35,134,888	21,863,712	-
	P28,682,277,052	P16,460,166,842	P14,517,268,112	P14,165,008,940

¹Net of allowance for credit and impairment losses amounting to P368.2 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to P149.9 million and P5.4 million, respectively.

³Net of allowance for credit and impairment losses amounting to P1.0 million.

	2016			
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk
Loans and receivables:				
Receivables from customers:				
Corporate loans ¹	P11,370,528,687	P2,404,184,634	P1,442,510,782	P9,928,017,905
Consumer loans ²	10,547,197,660	10,491,588,108	9,672,854,715	874,342,945
	21,917,726,347	12,895,772,742	11,115,365,497	10,802,360,850
Sales contracts receivable	24,304,872	35,134,888	24,304,872	-
	P21,942,031,219	P12,930,907,630	P11,139,670,369	P10,802,360,850

¹Net of allowance for credit and impairment losses amounting to P305.9 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to P183.1 million and P7.1 million, respectively.

Concentration of Credit Risk Exposure of Financial Assets

The Bank monitors concentration of credit risk by industry. The distribution of the Bank's financial assets and off-balance sheet items by industry sector, before taking into account collaterals held or other credit enhancements (maximum exposure) are as follows:

	2017				
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Other community, social and personal activities	₱14,198,901,366	₱-	₱-	₱31,038,138	₱14,229,939,504
Financial intermediaries	2,429,161,823	7,307,454,663	452,608,581	-	10,189,225,067
Wholesale and retail trade	4,966,778,801	-	-	20,335,355	4,987,114,156
Real estate	4,436,264,067	-	-	27,668,123	4,463,932,190
Manufacturing	2,169,368,615	-	-	-	2,169,368,615
Philippine government	-	-	864,253,822	-	864,253,822
Transportation, storage and communication	542,300,946	-	-	-	542,300,946
Construction	259,559,588	-	-	3,000,000	262,559,588
Mining and quarrying	153,984,773	-	-	-	153,984,773
Agricultural, hunting and forestry	14,064,623	-	-	-	14,064,623
Hotel and restaurant	13,597,668	-	-	-	13,597,668
Electricity, gas and water supply	3,282,461	-	-	1,248,250	4,530,711
	29,187,264,731	7,307,454,663	1,316,862,403	83,289,866	37,894,871,663
Allowance for credit and impairment losses	519,113,362	-	-	-	519,113,362
	₱28,668,151,369	₱7,307,454,663	₱1,316,862,403	₱83,289,866	₱37,375,758,301

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests and net of allowance for credit and impairment losses.

²Comprised of due from BSP, due from other banks, interbank loans receivable.

³Comprised of financial assets at FVPL, AFS investments (excluding unquoted equity security) and HTM investments.

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

	2016				
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Financial intermediaries	₱2,160,986,415	₱7,252,274,537	₱572,372,419	₱-	₱9,985,633,371
Other community, social and personal activities	9,597,263,048	-	-	2,737,648	9,600,000,696
Wholesale and retail trade	4,380,871,771	-	-	26,990,317	4,407,862,088
Real estate	3,421,718,662	-	-	26,742,524	3,448,461,186
Manufacturing	1,701,046,832	-	-	-	1,701,046,832
Philippine government	-	-	1,638,441,776	-	1,638,441,776
Transportation, storage and communication	419,461,458	-	-	-	419,461,458
Agricultural, hunting and forestry	371,914,617	-	-	-	371,914,617
Construction	199,774,219	-	-	3,135,000	202,909,219
Mining and quarrying	153,000,000	-	-	-	153,000,000
Hotel and restaurant	11,995,247	-	-	-	11,995,247
Electricity, gas and water supply	2,503,828	-	-	-	2,503,828
	22,420,536,097	7,252,274,537	2,210,814,195	59,605,489	31,943,230,318
Allowance for credit and impairment losses	489,015,012	-	-	-	489,015,012
	₱21,931,521,085	₱7,252,274,537	₱2,210,814,195	₱59,605,489	₱31,454,215,306

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interest and net of allowance for credit and impairment losses.

²Comprised of due from BSP, due from other banks, interbank loans receivable.

³Comprised of financial assets at FVPL, AFS investments (excluding unquoted equity security) and HTM investments.

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

The Bank regularly assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Indication or evidence of impairment may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

The Bank addresses impairment assessment in two areas: individual or specific assessment and collective assessment.

Individual or Specific Assessment. The Bank determines the impairment loss appropriate for each individually significant loan or receivable on an individual account basis. Factors considered in determining the appropriate amounts of impairment loss include an account's age, payment and collection history, short and medium-term prospects in the industry, timing of expected cash flows and realizable value of collateral.

The Bank establishes criteria for specific loan impairment testing and uses the discounted cash flow technique method to compute for impairment loss. Accounts subjected to specific assessment and are found to be impaired are excluded from the collective impairment assessment.

Collective Assessment. Collective assessment for loan impairment losses are performed on commercial loans and receivables that are not individually significant and those significant loans and receivables, which were individually assessed for impairment but were found not to be impaired. Generally, the Bank applies the probability of loss method in determining the collective impairment loss, where such probability is derived from the product of default rate and loss rate. For personal and salary loans, the added dimension of net flow rate method is considered. This method utilizes the historical data on movements of arrearages (flow-over and flow-back) across the different delinquency age buckets, as a means of determining default and loss rate.

Credit Quality per Class of Financial Assets

The Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. The following tables show the credit quality of financial assets by class, gross of allowance (amounts in thousands):

	2017					
	Neither Past Due nor Impaired			Past Due but not	Individually	Total
	High Grade	Standard Grade	Total	Individually Impaired	Impaired	
Financial assets at FVPL -						
Government securities	₱158,685	₱-	₱158,685	₱-	₱-	₱158,685
AFS financial assets:						
Government securities	702,075	-	702,075	-	-	702,075
Private debt securities	456,102	-	456,102	-	-	456,102
Loans and receivables:						
Loans and discount:						
Consumer loans	13,810,193	-	13,810,193	719,268	507,768	15,037,229
Corporate loans	2,808,542	10,926,764	13,735,306	-	411,354	14,146,660
Unquoted debt securities	562,289	-	562,289	-	-	562,289
Accrued interest income	147,832	-	147,832	-	-	147,832
Accounts receivable	47,248	-	47,248	-	-	47,248

(Forward)

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	2017					
	Neither Past Due nor Impaired			Past Due but not		
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	Total
Sales contracts receivable	₱19,758	₱-	₱19,758	₱-	₱3,137	₱22,895
Bills purchased	3,376	-	3,376	-	-	3,376
Other assets:						
Refundable deposits	27,668	-	27,668	-	-	27,668
RCOCI	416	-	416	-	-	416
Loans and advances to banks:						
Due from BSP	2,519,966	-	2,519,966	-	-	2,519,966
Due from other banks	4,333,505	-	4,333,505	-	-	4,333,505
Interbank loans receivable	453,983	-	453,983	-	-	453,983
	₱26,051,638	₱10,926,764	₱36,978,402	₱719,268	₱922,259	₱38,619,929

	2016					
	Neither Past Due nor Impaired			Past Due but not		
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	Total
Financial assets at FVPL -						
Government securities	₱501,492	₱-	₱501,492	₱-	₱-	₱501,492
AFS financial assets:						
Government securities	724,710	60,799	785,509	-	-	785,509
Private debt securities	572,372	-	572,372	-	-	572,372
HTM investments -						
Government securities	351,441	-	351,441	-	-	351,441
Loans and receivables:						
Loans and discount:						
Corporate lending	1,616,768	9,628,084	11,244,852	-	315,843	11,560,695
Consumer lending	9,863,562	56,679	9,920,241	602,847	330,028	10,853,116
Unquoted debt securities	602,009	-	602,009	-	-	602,009
Bills purchased	6,725	-	6,725	-	-	6,725
Accrued interest income	145,864	-	145,864	-	-	145,864
Accounts receivable	49,467	-	49,467	-	-	49,467
Sales contracts receivable	24,305	-	24,305	-	-	24,305
Other assets:						
Refundable deposits	23,283	-	23,283	-	-	23,283
RCOCI	938	-	938	-	-	938
Loans and advances to banks:						
Due from BSP	3,142,341	-	3,142,341	-	-	3,142,341
Due from other banks	1,753,369	-	1,753,369	-	-	1,753,369
Interbank loans receivable	2,356,564	-	2,356,564	-	-	2,356,564
	₱21,735,210	₱9,745,562	₱31,480,772	₱602,847	₱645,871	₱32,729,490

The table below shows the aging analysis of past due but not individually impaired loans and receivables by class (amounts in thousands).

	2017					Total
	Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	
Loans and discount -						
Consumer lending	₱76,788	₱25,374	₱19,860	₱39,157	₱558,089	₱719,268
	2016					Total
	Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	
Loans and discount -						
Consumer lending	₱3,316	₱5,080	₱35,543	₱62,338	₱496,570	₱602,847

The credit quality of trading and investment securities is generally monitored through the external ratings of eligible external credit rating institutions.

Presented below is the mapping of the credit risk rating from external rating agencies with the Bank's internal risk rating for investment securities:

A. Moody's Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	Aaa	Aa	A	Baa	P
Standard Grade	Ba	B			Not Prime
Substandard Grade	Caa	Ca			
Impaired	C				

B. S&P Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC	CC	C		C
Impaired	D				

C. Fitch Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC				C
Impaired	DDD	DD	D		

D. Philratings:

Credit Quality	Rating				
	Long-term				Short-term
High Grade	PRS Aaa	PRS Aa	PRS A	PRS Baa	PRS 1
					PRS 2
					PRS 3
Standard Grade	PRS Ba	PRS B			PRS 4
Substandard Grade	PRS Caa	PRS Ca			PRS 5
Impaired	PRS C				PRS 6

For debt securities not rated by any rating agency, the Bank performs the credit rating review for the issuers of the debt securities based on quantitative and qualitative analyses, the data of which are provided by the Treasury/Trust Group.

Below is the guidance in evaluation if the investment is impaired or not.

Credit Quality	Rating	Assessment
High Grade	1 and 2	Not Impaired
Standard Grade	3	Not Impaired
Substandard Grade	4	Impaired
Impaired	5	Impaired

For loans, the credit quality is generally monitored using the Bank's internal rating system. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely, the borrower's risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses Internal Credit Risk Ratings to classify the credit quality of its receivables portfolio. This is being upgraded, as needed, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions of the loan grades used by the Bank for receivables from customers are as follows:

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Risk Rating 1 – Excellent. The borrower's ability to meet its financial commitments is extremely strong and there is a very low probability that it will default on payments due in the coming year. The borrower has a high degree of stability, substance and diversity.

A borrower in this category has access to substantial amounts of funds through the public capital market at any time. It has a strong debt service capacity and has conservative balance sheet leverage (vis-a-vis the industry in which the borrower operates). The track record in profit terms is very good. The borrower is of the highest quality, operating reliably under virtually any and all economic conditions.

Risk Rating 2 – Strong. The borrower's ability to meet its financial commitments is very strong and there is a low probability that it will default on payments due in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrowers in this category have good access to public capital market to raise funds.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios (vis-à-vis applicable industry) are conservative.

These borrowers herein categorized are described as quality corporations or enterprises, which are adequately capitalized and operating profitably.

Risk Rating 3 – Good. The borrower's ability to meet its financial commitments is strong. It may be described as a big or small corporation whose access to public capital market or to alternative financial market is easy, may be limited to periods of favorable economic and/or market conditions.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low. However, it may still be susceptible to the negative effects of cyclical business changes.

Typical traits include a combination of comfortable asset protection and an acceptable balance sheet structure (vis-à-vis that industry). The debt service capacity as measured by cash flow analysis is strong.

Risk Rating 4 – Satisfactory. The borrower has adequate capacity to meet its financial commitments. Borrower operates in an environment where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. A borrower in this category normally has limited access to public financial market. It should be able to withstand normal business cycles, but any prolonged unfavorable economic climate may create gradual deterioration in its financial health.

Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profit for the past fiscal year and is expected to report a profit in the current year.

Risk Rating 5 – Acceptable. The borrower is less vulnerable but faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to its inadequate capacity to meet its financial commitments.

This category represents borrowers who may still be able to withstand normal business cycles. However, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable level.

This category will apply where the risk is still acceptable for the following reasons:

- There is sufficient cash flow either historically or expected for the future, in spite of an economic downturn combined with asset protection; or
- There is a new business or project finance transaction.

Risk Rating 6 – Weak. The borrower is more vulnerable but currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower’s capacity or willingness to meet its financial requirements.

This category represents the type of borrower for which unfavorable industry or company-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

Generally, a borrower in this category incurs net losses for one or more years. Normally, there is an expectation that conditions will improve and the rating may be upgraded. Any deterioration, however, will almost certainly result in an automatic downgrade.

In summary, this category includes those borrowers where the credit exposure is not at risk of loss at the moment, but wherein performance has weakened, and unless present trends are reversed, could lead to losses.

Risk Rating 7 – Poor. The borrower is currently vulnerable and is dependent on favorable business, financial and economic conditions to meet its financial obligations.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower’s financial condition or creditworthiness.
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity.
- Indications that the borrower’s ability or willingness to service debt are in doubt.
- Necessity or strong likelihood for rescheduling of the loan.
- Decline in values of, or adverse developments on, collaterals securing the loan.

Risk Rating 8 – Substandard. The borrower is currently highly vulnerable and is in a state of default. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. These well-defined adverse elements exist in such loans where there is a possibility of future loss to the institution unless given closer supervision. Such may include adverse trends or development of a financial, managerial, economic or political nature or significant weakness in collateral. Basic characteristics are:

- Past due there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information;

- Current loans to borrowers whose financial statements audited by the SEC-accredited external auditors show impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower's financial statements without at least 20.0% repayment of the principal before renewal or extension;
- Current loans of borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Loans under litigation; and
- Past due loans for more than 90 days.

Risk Rating 9 – Doubtful. Borrower is in a state of default, where any of the following factors are present:

- Account is already in “non-performing loan” (NPL) status;
- Any portion of any principal and/or interest repayment is in arrears for more than 90 days;
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful; and
- Overdue loans wherein the prospects of fully applying the collaterals is impaired due to material declines in market value, or subject of adverse claim.

The extent of probability of loss cannot be exactly quantified at this time. Although the possibility of loss is significant, there may be certain important and reasonably specific pending factors that can work to the advantage of the Bank and result in a strengthening of assets of the borrower. Pending factors include merger, acquisition, capital injection and additional cover.

Risk Rating 10 – Loss. Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the company.

These are loans, or portions thereof, which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is neither practical nor desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future. Basic characteristics are:

- Past due clean loans, the interest of which has remained unpaid for a period of six months;
- Loans payable in installments where amortization applicable to interest is past due for a period of six months, unless the loan is fully secured;

- When the borrower's whereabouts are unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guarantee is not financially supported;
- Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent; and
- Loan considered as absolutely uncollectible.

Collateral and Other Credit Risk Mitigation

The amount and type of collateral, required depends on an assessment of the credit risk of the obligor. The Bank implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial or non-financial assets. The main types of collateral obtained include cash or securities, charges over real estate or chattel properties, inventory and trade receivables and mortgages over residential properties. The Bank also obtains guarantees from parent companies for loans of borrowing entities belonging to a group of companies.

The Bank monitors the market value of collateral, and request for additional collateral in accordance with the underlying agreement.

The following table shows the fair value of collaterals held against the loans and receivables that are neither past due nor impaired:

	2017	2016
Properties	₱15,188,195,688	₱12,513,199,985
Deposits	870,995,271	269,752,733
	₱16,059,190,959	₱12,782,952,718

It is the Bank's policy to sell foreclosed assets through public bidding (only after the assets are appraised anew to determine current market value, and duly bid based on the approved minimum bid price).

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when these become due, without incurring unacceptable losses or costs. Specifically, this pertains to events that may necessitate the Bank to enter into transactions that would realize significant losses or costs in order to meet its obligations when these fall due.

ALCO is responsible for formulating the Bank's liquidity risk management policies, whereas the RMG is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding.

The Bank's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met with minimum sacrifice to market price and by maintaining a balanced loan portfolio, which is re-priced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand within three months.

The Bank's Treasury Department uses liquidity forecast models that estimate the Bank's cash flow requirements based on the Bank's actual contractual obligations under normal circumstances and extraordinary circumstances. RMG prepares a monthly maximum cumulative outflow report, which is an analysis of maturity gaps of the Bank's assets and liabilities.

Aging of Financial Assets and Liabilities by Remaining Contractual Maturities

The tables below summarize the maturity profile of the Bank's financial assets and liabilities used for liquidity management based on contractual undiscounted payments and receipts as at December 31, 2017 and 2016:

	2017						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P-	P95,175,892	P15,862,649	P31,725,297	P15,921,377	P-	P158,685,215
AFS financial assets	-	-	-	29,714,117	52,974,802	1,097,485,428	1,180,174,347
COCI	629,416,734	-	-	-	-	-	629,416,734
Due from BSP	-	2,519,965,700	-	-	-	-	2,519,965,700
Due from other banks	-	4,333,505,485	-	-	-	-	4,333,505,485
Interbank loans receivable	-	453,983,478	-	-	-	-	453,983,478
Loans and receivables:							
Loans and discounts	-	7,893,847,420	2,295,761,041	4,940,867,543	3,052,808,676	22,948,573,195	41,131,857,875
Unquoted debt securities	-	1,810,929	541,902,106	1,332,597	4,340,050	12,902,982	562,288,664
Accrued interest income	-	29,632,758	10,395,733	23,297,511	19,209,244	65,296,716	147,831,962
Accounts receivable	-	21,326,267	725,994	1,127,537	416,486	23,651,464	47,247,748
Sales contracts receivable	-	109,337	109,337	437,348	656,022	16,548,178	17,860,222
Other assets	-	-	-	-	-	28,084,426	28,084,426
	P629,416,734	P15,349,357,266	P2,864,756,860	P5,028,501,950	P3,146,326,657	P24,192,542,389	P51,210,901,856
Financial Liabilities							
Deposit liabilities:							
Demand	P7,776,434,094	P-	P-	P-	P-	P-	P7,776,434,094
Savings	-	1,649,356,679	5,227,860	821,166	-	2,713,617,003	4,369,022,708
Time	-	15,627,127,669	2,591,783,719	2,748,947,353	623,029,548	886,363,709	22,477,251,998
	7,776,434,094	17,276,484,348	2,597,011,579	2,749,768,519	623,029,548	3,599,980,712	34,622,708,800
Manager's checks	-	185,381,487	-	-	-	-	185,381,487
Accrued interest expense	-	6,212,282	1,096,982	1,321,289	280,359	44,494,281	53,405,193
Unsecured subordinated debt	-	14,250,000	-	14,250,000	28,500,000	978,658,333	1,035,658,333
Other liabilities*	-	816,212,996	-	-	-	-	816,212,996
	P7,776,434,094	P18,298,541,113	P2,598,108,561	P2,765,339,808	P651,809,907	P4,623,133,326	P36,713,366,809

* Comprised of accounts payable, marginal deposit, payment orders, and bills purchased-contra.

	2016						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P-	P306,624,293	P50,144,049	P102,134,758	P50,144,049	P-	P509,047,149
AFS financial assets	-	5,414,165	24,038,544	30,464,961	11,154,245	1,295,902,759	1,366,974,674
HTM investments	-	-	4,496,414	4,622,406	-	351,441,287	360,560,107
COCI	625,137,059	-	-	-	-	-	625,137,059
Due from BSP	-	3,142,341,082	-	-	-	-	3,142,341,082
Due from other banks	-	1,753,369,339	-	-	-	-	1,753,369,339
Interbank loans receivable	-	2,356,564,116	-	-	-	-	2,356,564,116
Loans and receivables:							
Loans and discounts	-	7,148,093,438	2,025,353,516	4,165,884,564	2,323,875,364	17,849,370,823	33,512,577,705
Unquoted debt securities	-	-	11,604,450	-	-	602,008,930	613,613,380
Accrued interest income	-	27,835,320	9,077,048	21,165,716	19,290,634	68,495,496	145,864,214
Accounts receivable	-	25,587,890	1,245,390	2,898,056	3,900,407	16,046,533	49,678,276
Sales contracts receivable	-	173,527	173,527	694,106	1,041,159	34,920,804	37,003,123
Other assets	-	-	-	-	24,220,747	-	24,220,747
	P625,137,059	P14,766,003,170	P2,126,132,938	P4,327,864,567	P2,433,626,605	P20,218,186,632	P44,496,950,971

	2016						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Liabilities							
Deposit liabilities:							
Demand	₱6,794,608,520	₱-	₱-	₱-	₱-	₱-	₱6,794,608,520
Savings	-	1,124,960,197	5,173,190	-	-	1,680,942,191	2,811,075,578
Time	-	13,313,806,532	2,713,218,975	2,350,094,480	623,172,425	1,157,179,849	20,157,472,261
	6,794,608,520	14,438,766,729	2,718,392,165	2,350,094,480	623,172,425	2,838,122,040	29,763,156,359
Manager's checks	-	230,933,735	-	-	-	-	230,933,735
Accrued interest expense	-	4,942,591	1,106,515	1,012,449	287,224	29,767,787	37,116,566
Unsecured subordinated debt	-	-	7,656,250	7,656,250	15,312,500	444,564,236	475,189,236
Other liabilities*	-	680,887,891	-	-	-	-	680,887,891
	₱6,794,608,520	₱15,124,597,211	₱2,727,154,930	₱2,358,763,179	₱638,772,149	₱3,312,454,063	₱31,187,283,787

* Comprised of accounts payable, marginal deposit, payment orders, and bills purchased-contra.

Market Risks

Market risk is the risk of loss of future earnings, fair values or future cash flows as a result of changes in interest rate, foreign exchange rate, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of debt securities.

ALCO, chaired by the Head of Treasury, is the senior management committee responsible for review and management of market risk. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial market. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Department under RMG. The limits are annually reviewed by the ALCO and RMG and approved by RMC. RMG performs regular reporting to ALCO and to the RMC, which is a sub-committee of the BOD.

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rate are kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR). EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from one-year standard deviation change in interest rate, updated monthly. EaR is calculated based on 99.00% confidence level. It is accomplished monthly, with quarterly stress test.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rate of the Bank's net interest income and equity with all other variables held constant (amounts in millions):

	2017			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	₱6.46	₱12.92	(₱6.46)	(₱12.92)
Deposit liabilities	(14.84)	(29.69)	14.84	29.69
As a percentage of the net interest income for the year	(1%)	(1%)	1%	1%
Changes in equity* -				
AFS financial assets	(36.98)	(72.46)	40.59	83.03

*The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.

	2016			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	₱5.37	₱10.74	(₱5.37)	(₱10.74)
Deposit liabilities	(12.44)	(24.88)	12.44	24.88
As a percentage of the net interest income for the year	(1%)	(1%)	1%	1%
Changes in equity* -				
AFS financial assets	(44.92)	(87.20)	47.69	98.47

*The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value erosion due to an adverse movement in foreign exchange rate. It arises due to a mismatch in the Bank's foreign currency-denominated assets and liabilities.

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 BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, BSP requires 100% asset cover for its FCDU liabilities, 30% of which should be in the form of liquid assets. As at December 31, 2017 and 2016, the Bank is in compliance with the said regulation.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table summarizes the Bank's foreign currency-denominated financial assets and liabilities as at December 31, 2017 and 2016. Included in the table are assets and liabilities at carrying amounts in Philippine Peso equivalent, categorized by currency.

	2017			2016		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and other cash items	₱50,791,206	₱30,299	₱50,821,505	₱66,061,741	₱715	₱66,062,456
Due from other banks	4,243,990,330	33,347,710	4,277,338,040	2,575,130,465	53,229,659	2,628,360,124
Interbank loans receivable	5,055,956	77,194,910	82,250,866	178,967,998	53,835,533	232,803,531
Loans and receivables	423,259,095	—	423,259,095	418,095,505	—	418,095,505
	4,723,096,587	110,572,919	4,833,669,506	3,238,255,709	107,065,907	3,345,321,616
Financial Liabilities						
Deposit liabilities	4,960,855,954	3,920,772	4,964,776,726	3,756,431,364	17,498,794	3,773,930,158
Net Exposure	₱237,759,367	(₱106,652,147)	₱131,107,220	₱518,175,655	(₱89,567,113)	₱428,608,542

*Consist of Euro, United Kingdom Pound, Canadian Dollar, Australian Dollar, Hong Kong Dollar, New Zealand Dollar, Singapore Dollar, Japanese Yen, Swiss Franc and Chinese Yuan.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate on the Bank's net income (amounts in millions):

	2017			
	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.51	₱1.00	(₱0.51)	(₱1.00)
	2016			
	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.34	₱0.69	(₱0.34)	(₱0.69)

The increase in USD exchange rate represents depreciation of Philippine Peso while the decrease in USD exchange rate represents appreciation of Philippine Peso. The increase or decrease in exchange rate of other currencies is not significant.

There is no other impact in the Bank's equity other than those already affecting the net income.

Market Risk in the Trading Book

The Bank is exposed to the potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rate. The trading activities of the Bank include investments on fixed income securities and foreign exchange trading, which exposes the Bank to interest rate and foreign exchange risks. In the trading book, market risk is controlled by a daily analysis of the Value-at-Risk (VaR) of financial instruments under normal market conditions.

Objectives and Limitations of the VaR Methodology

The Bank uses the VaR approach in assessing the possible changes in the market value of the trading portfolio based on historical data for a rolling one year period. The Bank employs the use of historical methodology in calculating the VaR. This model assumes that the exact distribution of past returns does not apply during sudden changes in market condition. The use of historical VaR model has limitations, which requires a significant amount of risk factor history. It does not capture probabilities that have not yet occurred while it captures irregularities present in the historical database.

The VaR figures are backtested to validate the robustness of the VaR model. The Bank performs the hypothetical and actual backtesting procedures both for RBU and FCDU securities. Likewise, to complement VaR measure, the Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios.

VaR Assumptions/Parameters

The VaR that the Bank measures is an estimate, which uses actual historical rates and revalues positions for each change in the market. It is appropriate for all types of instruments, linear and non-linear, with stable risk factors for which there is a rich historical database. Since VaR is an integral part of the Bank's market risk management, VaR limits have been established annually for all financial trading activities and exposures against the VaR limits are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Bank.

The Market Risk Officer of the Bank prepares a daily VaR report containing details on the VaR amount, VaR limit utilization, and VaR limit breaches, if any. This report is submitted to the traders concerned, Treasury Head, Chief Risk Officer, Treasury Operations Head, and the President. Moreover, the VaR results are discussed and reported in the monthly Risk Management Committee meetings.

The following table provides the VaR summary of the Bank for the years ended December 31, 2017 and 2016 (amounts in thousands):

	2017		2016	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 29	₱782	₱1,430	₱19	₱20,385
Average Daily	105	16,414	87	24,642
Highest	2,497	47,327	940	45,301
Lowest	1,432	1,430	2.83	4,403

Fixed income VaR includes value-at-risk for investment securities denominated in currencies other than Philippine Peso. VaR, being a measure of risk in the trading book, only includes held for trading portfolio.

The Bank's trading in fixed income securities is exposed to movements in interest rate. The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of the individual portfolios may have occurred on different trading days. The VaR or foreign exchange is the foreign exchange risk throughout the Bank. The Bank when aggregating the foreign exchange VaR and interest VaR does not consider the correlation effects between the two risks.

Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally-imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

Regulatory Qualifying Capital

Under the existing BSP regulations, the determination of the compliance with regulatory requirements and ratios is based on the amount of the "qualifying capital" (regulatory net worth) as reported to BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letter of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The details of CAR as reported to the BSP, based on BSP Circular 688, *Revised Risk-Based Capital Adequacy Framework for Standalone Thrift Banks, Rural Banks and Cooperative Banks*, are as follows (amounts in thousands):

	2017	2016
Tier 1 capital	₱2,482,597	₱2,259,580
Required deductions	8,775	29,236
	2,473,822	2,230,344
Excess from Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 1 Capital	2,473,822	2,230,344
Tier 2 capital	1,556,512	1,005,247
Required deductions	-	-
	1,556,512	1,005,247
Excess of Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 2 Capital	1,556,512	1,005,247
Total Qualifying Capital	₱4,030,334	₱3,235,591

*Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.

	2017	2016
Credit RWA	₱29,755,054	₱23,686,572
Market RWA	396,790	375,501
Operational RWA	2,187,795	2,091,337
Total RWA	₱32,339,639	₱26,153,410
Tier 1 capital ratio	7.65%	8.53%
Total capital ratio	12.46%	12.37%

The Bank's regulatory qualifying capital consists of Tier 1 (core) capital, which comprises paid-up common stock, surplus including current year profit, and cumulative foreign currency translation less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. Certain adjustments are made to results and reserves based on PFRS, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes paid-up preferred stock, unsecured subordinated debt and general loan loss provision.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations and Corporates.

The Bank has complied with all externally imposed capital requirements in 2017 and 2016.

5. Fair Value Measurement

The following table presents the carrying amounts and fair values of the Company's assets measured at fair value and for which fair values are disclosed, and the corresponding hierarchy:

	2017			
	Carrying Amount	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVPL -				
Government securities	₱158,685,215	₱158,685,215	₱-	₱-
AFS financial assets:				
Government securities	702,075,379	702,075,379	-	-
Private bonds	456,101,809	53,345,212	402,756,597	-
	1,158,177,188	755,420,591	402,756,597	-
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Receivable from customers:				
Consumer loans	14,669,050,557	-	-	15,113,091,745
Corporate loans	13,991,362,783	-	-	14,283,022,596
Unquoted debt securities	562,288,664	-	-	570,037,248
	29,222,702,004	-	-	29,966,151,589
Assets held for sale	263,687,853	-	263,687,853	-
Refundable deposits	27,668,123	-	27,668,123	-
Total Assets	₱30,830,920,383	₱914,105,806	₱694,112,573	₱29,966,151,589
Liabilities for which Fair Values are Disclosed				
Time deposits	₱22,477,251,998	₱-	₱22,477,251,998	₱-
Unsecured subordinated debt	1,000,000,000	-	1,027,778,004	-
Total Liabilities	₱23,477,251,998	₱-	₱23,505,030,002	₱-

	2016			
	Carrying Amount	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVPL -				
Government securities	₱501,491,653	₱501,491,653	₱-	₱-
AFS financial assets:				
Government securities	785,508,836	785,508,836	-	-
Private bonds	572,372,419	55,625,683	516,746,736	-
	1,357,881,255	841,134,519	516,746,736	-
Assets for which Fair Values are Disclosed				
HTM investments -				
Government securities	351,441,287	409,326,562	-	-
Loans and receivables:				
Receivable from customers:				
Corporate loans	11,370,528,687	-	-	11,578,583,762
Consumer loans	10,547,197,660	-	-	10,965,654,690
Unquoted debt securities	602,008,930	-	-	610,304,877
	22,519,735,277	-	-	23,154,543,329
Assets held for sale	210,179,719	-	210,179,719	-
Refundable deposits	23,283,099	-	23,283,099	-
Total Assets	₱24,964,012,290	₱1,751,952,734	₱750,209,554	₱23,154,543,329

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	2016			
	Carrying Amount	Quoted Prices in Active Market (Level 1)	Fair Value Significant Observable Inputs (Level 2)	Fair Value Significant Unobservable Inputs (Level 3)
Liabilities for which Fair Values are Disclosed				
Time deposits	₱19,758,725,138	₱-	₱19,758,725,138	₱-
Unsecured subordinated debt	500,000,000	-	513,889,002	-
Total Liabilities	₱20,258,725,138	₱-	₱20,272,614,140	₱-

There were no transfers between levels/hierarchy of fair value measurements in 2017 and 2016.

The table below presents the financial assets and liabilities of the Bank, whose carrying amounts approximate fair values due to the short-term nature of the transactions:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and other cash items	₱629,416,734	₱629,416,734	₱625,137,059	₱625,137,059
Due from BSP	2,519,965,700	2,519,965,700	3,142,341,082	3,142,341,082
Due from other banks	4,333,505,485	4,333,505,485	1,753,369,339	1,753,369,339
Interbank loans receivable	453,983,478	453,983,478	2,356,564,116	2,356,564,116
Loans and receivables:				
Receivables from customers:				
Corporate loans	13,991,362,783	13,991,362,783	11,370,528,687	11,370,528,687
Consumer loans	785,446,845	785,446,845	680,759,567	680,759,567
Bills purchased	3,375,913	3,375,913	6,724,959	6,724,959
Unquoted debt securities	549,385,683	549,385,683	25,671,873	25,671,873
Accrued interest income	147,831,962	147,831,962	145,864,214	145,864,214
Accounts receivable	47,247,748	47,247,748	49,466,659	49,466,659
RCOCI	416,303	416,303	937,648	937,648
	₱23,461,938,634	₱23,461,938,634	₱20,157,365,203	₱20,157,365,203
Financial Liabilities				
Deposit liabilities				
Time	₱7,776,434,094	₱7,776,434,094	₱6,794,608,520	₱6,794,608,520
Demand	1,655,405,705	1,655,405,705	1,130,133,387	1,130,133,387
Savings	20,967,858,741	20,967,858,741	18,377,119,987	18,377,119,987
	30,399,698,540	30,399,698,540	26,301,861,894	26,301,861,894
Accrued interest expense	53,405,194	53,405,194	37,116,568	37,116,568
Other liabilities*	816,212,996	816,212,996	680,887,891	680,887,891
	₱31,269,316,730	₱31,269,316,730	₱27,019,866,353	₱27,019,866,353

*Includes accounts payable, payment orders, bills purchased-contra and marginal deposits.

The methods and assumptions used by the Bank in estimating the fair value of the assets and liabilities of the Bank that are carried at fair value and those whose fair values are disclosed are as follows:

Debt Securities. Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

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

Significant Unobservable Inputs	Range (weighted average)
Transfer pool rate	3.52% - 7.29%
Credit spread	0.50% - 2.50%

Certain loans are subject to quarterly repricing. Hence, the carrying amounts of these loans approximate fair values.

Sensitivity Analysis. Generally, significant increases (decreases) in rate would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

Time Deposits and Unquoted Debt Obligations. Fair values of these instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with the remaining liabilities being valued.

Assets Held for Sale. Fair value is based on valuation using market data approach, as determined by independent and/or in-house appraiser.

Refundable Deposits. Fair value is based on discounted cash flows using the prevailing credit-adjusted interest rate.

Other Financial Liabilities. For financial liabilities other than time deposits, the carrying amounts approximate fair values considering that these are due and demandable.

6. Interbank Loans Receivable

This account pertains to short-term loans to local and foreign banks maturing up to three months. Interbank loans receivable amounted to ₱454.0 million and ₱2,356.6 million as at December 31, 2017 and 2016, respectively. Interest income on interbank loans receivable amounted to ₱44.6 million and ₱14.3 million in 2017 and 2016, respectively.

Below are the ranges of interest rates applicable to the interbank loans receivable:

	2017	2016
Local banks	0.01% to 3.00%	2.50% to 2.56%
Foreign banks	0.01% to 0.06%	0.05% to 0.25%

7. Financial Assets at FVPL

This account consists of government securities amounting to ₱158.7 million and ₱501.5 million as at December 31, 2017 and 2016, respectively.

Financial assets at FVPL bear effective interest rates as follows:

	2017	2016
Foreign currency-denominated	2.76% to 3.73%	3.10% to 3.10%
Philippine Peso-denominated	-	3.95% to 4.80%

Interest income from investment securities are as follows:

	Note	2017	2016
AFS financial assets	8	₱60,665,221	₱97,691,345
Financial assets at FVPL		48,687,528	36,165,513
HTM investments	9	17,138,236	17,783,823
		₱126,490,985	₱151,640,681

Net trading and securities gains (losses) from investment securities are as follows:

	Note	2017	2016
HTM Investments	9	₱54,436,940	₱-
Financial assets at FVPL:			
Realized gains (losses)		(40,833,187)	13,389,228
Unrealized trading losses		(4,715,072)	(48,437,292)
AFS financial assets	8	(752,622)	14,940,562
		₱8,136,059	(₱20,107,502)

8. AFS Financial Assets

This account consists of:

	2017	2016
Government securities	₱702,075,379	₱785,508,836
Private bonds	456,101,809	572,372,419
Unquoted equity security	16,073,463	16,073,463
	₱1,174,250,651	₱1,373,954,718

The unquoted equity security pertains to investment in shares of stock of Bancnet, Inc. acquired on November 11, 2011, which the Bank intends to hold for long-term.

AFS financial assets bear effective interest rates as follows:

	2017	2016
Philippine Peso-denominated	2.62% to 6.19%	1.38% to 4.89%
Foreign currency-denominated	2.28% to 2.29%	2.28% to 12.90%

Interest income amounted to ₱60.7 million and ₱97.7 million in 2017 and 2016, respectively (see Note 7).

The movements in cumulative unrealized gains (losses) on fair value changes of AFS financial assets are as follows:

	Note	2017	2016
Balance at beginning of year		(P65,222,521)	(P188,066,529)
Changes in fair value		(14,251,299)	107,299,541
Amortization of unrealized losses on reclassified AFS financial assets		891,771	603,905
Net gain (loss) on sale of AFS financial asset taken to profit or loss	7	(752,622)	14,940,562
		(14,112,150)	122,844,008
Balance at end of year		(P79,334,671)	(P65,222,521)

Cumulative unrealized gains (losses) on fair value changes of AFS investments include unrealized losses on reclassified AFS financial assets amounting to P6.7 million as at December 31, 2016.

Reclassification of AFS Financial Assets

The Bank identified certain eligible AFS financial assets for which it had a clear change of intent to hold these financial assets until maturity in order to adequately manage its net interest earning streams by matching these securities against its core funding, as defined under its existing risk management measurements and parameters.

On July 1, 2008, the Bank reclassified USD-denominated investment securities aggregating \$2.3 million with 6.80% effective interest from AFS financial assets to HTM investments. The reclassification is compliant with the criteria and rules set forth in BSP Circular Nos. 626 and 628, *Guidelines on the Reclassification of Financial Assets*, as well as those provided in the SEC Memorandum Circular No. 10, Series of 2008, on Amendments to PAS 39 and PFRS 7, *Financial Instruments: Disclosures*.

As at December 31, 2016, the carrying amount and fair value of financial assets reclassified out of AFS financial assets to HTM investments amounted to P133.6 million and P179.9 million, respectively. In 2017, the Bank disposed all of its existing HTM investments (see Note 9).

Prior to reclassification, the fair value loss on the reclassified AFS financial assets recognized in "Net unrealized gains (losses) on AFS financial assets" reported under the equity section of the statements of financial position amounted to P9.7 million in 2016. Had the reclassification not been made, the fair value loss recognized in "Net unrealized gains (losses) on AFS financial assets" would have decreased by P46.3 million in 2016. As at December 31, 2016, the Bank expects to recover the entire cash flows of these reclassified financial assets.

In 2017, the Bank disposed all of its existing HTM investments (see Note 9).

9. HTM Investments

This account consists of government debt securities amounting to P351.4 million as at December 31, 2016.

HTM investments amounting to ₱208.2 million will mature on March 16, 2025 and bear interest of 3.99%. The other HTM investments pertain to Republic of the Philippines bonds that will mature on February 2, 2030 and bear effective interest of 7.47%.

The Bank disposed all of its existing HTM investments on November 22, 2017, resulting to a gain amounting to ₱54.4 million (see Note 7).

Interest income on HTM investments amounted to ₱17.1 million and ₱17.8 million in 2017 and 2016, respectively (see Note 7). Amortization of premium amounted to ₱6.1 million and ₱2.7 million in 2017 and 2016, respectively.

10. Loans and Receivables

This account consists of:

	2017	2016
Receivables from customers	₱29,181,870,979	₱22,413,466,318
Unquoted debt securities	562,288,664	602,008,930
Accrued interest income	147,831,962	145,864,214
Accounts receivable	47,247,748	49,466,659
Sales contracts receivable	22,895,348	24,304,872
	29,962,134,701	23,235,110,993
Allowance for credit and impairment losses	(519,113,362)	(489,015,012)
	₱29,443,021,339	₱22,746,095,981

Receivables from customers consist of:

	Note	2017	2016
Loans and discounts:			
Consumer loans		₱15,037,229,125	₱10,853,116,497
Corporate loans		14,146,659,693	11,560,694,641
Bills purchased	18	3,375,913	6,724,959
		29,187,264,731	22,420,536,097
Unearned discounts and capitalized interest		(5,393,752)	(7,069,779)
		₱29,181,870,979	₱22,413,466,318

The following table shows information relating to receivables from customers by collateral (at gross amounts):

	2017		2016	
	Amount	%	Amount	%
Secured by:				
Chattel mortgage	₱11,070,700,786	37.93%	₱7,150,040,270	31.89%
Real estate mortgage	4,999,465,883	17.13%	4,020,414,743	17.93%
Deposits	1,170,848,094	4.01%	235,682,452	1.05%
Others	284,062,500	0.97%	48,592,971	0.22%
	17,525,077,263	60.04%	11,454,730,436	51.09%
Unsecured	11,662,187,468	39.96%	10,965,805,661	48.91%
	₱29,187,264,731	100.00%	₱22,420,536,097	100.00%

As at December 31, 2017 and 2016, information on the concentration of credit (at gross amounts) as to industry follows:

	2017		2016	
	Amount	%	Amount	%
Other community, social and personal activities	₱14,198,901,366	48.64%	₱9,597,263,048	42.81%
Wholesale and retail trade	4,966,778,801	17.02%	4,380,871,771	19.54%
Real estate	4,436,264,067	15.20%	3,421,718,662	15.26%
Financial intermediaries	2,429,161,823	8.32%	2,160,986,415	9.64%
Manufacturing	2,169,368,615	7.43%	1,701,046,832	7.59%
Transportation, storage and communication	542,300,946	1.86%	419,461,458	1.87%
Construction	259,559,588	0.89%	199,774,219	0.89%
Mining and quarrying	153,984,773	0.53%	153,000,000	0.68%
Agricultural, hunting and forestry	14,064,623	0.05%	371,914,617	1.66%
Hotel and restaurants	13,597,668	0.05%	11,995,247	0.05%
Electricity, gas and water supply	3,282,461	0.01%	2,503,828	0.01%
	₱29,187,264,731	100.00%	₱22,420,536,097	100.00%

Majority of the Bank's loan exposure arises from corporate and consumer loans extended to other community, social and personal activities, which do not cover a specific industry. Hence, the Bank does not have concentration of credit risk to particular industries as at December 31, 2017 and 2016. At a maximum, the Bank grants loan amounting to 70% of the fair value of the collateral.

Non-performing loans (NPL) pertains to loan accounts, even without any missed contractual payments, when it is deemed impaired under existing applicable 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, in the case of secured accounts. All other loan accounts, even if not considered impaired, shall be considered non-performing if any contractual principal and/or interest are past due for more than 90 days, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

The gross and net NPL of the Bank as reported to the BSP amounted to ₱1,110.0 million and ₱730.6 million as at December 31, 2017, respectively, and ₱936.7 million and ₱507.6 million as at December 31, 2016, respectively. The gross and net NPL ratios of the Bank are 3.75% and 2.47%, respectively, as at December 31, 2017, and 3.96% and 2.14%, respectively, as at December 31, 2016.

As at December 31, 2017 and 2016, breakdown of the secured and unsecured NPL follows:

	2017	2016
Secured	₱500,600,551	₱288,086,802
Unsecured	609,356,492	648,613,229
	₱1,109,957,043	₱936,700,031

Restructured loans, which do not meet the requirements to be treated as performing receivables, are also considered as NPL. Restructured loans amounted to ₱57.4 million and ₱101.6 million as at December 31, 2017 and 2016, respectively. Interest income on restructured receivables amounted to ₱5.2 million and ₱9.6 million in 2017 and 2016, respectively.

Unquoted debt securities, which pertain to private bonds, consist of:

	2017	2016
Face value	P562,285,244	P601,827,876
Unamortized discount	3,420	181,054
	P562,288,664	P602,008,930

Unquoted debt securities bear effective interest rates up to 3.14% in 2017 and 2016.

Accounts receivable include receivables from officers relating to the car lease amounting to P33.2 million and P28.5 million as at December 31, 2017 and 2016, respectively (see Note 25).

Sales contracts receivable pertain to receivables from buyers of real properties classified as assets held for sale, bearing 10% nominal interest, with terms of 10 or 15 years.

The details of interest income on loans and receivables are as follows:

	2017	2016
Consumer loans	P1,162,485,817	P830,979,843
Corporate loans	705,968,030	677,926,513
Bills discounted	47,204,647	45,323,253
Unquoted debt securities	37,112,260	38,053,940
Sales contracts receivable	1,533,741	2,384,039
	P1,954,304,495	P1,594,667,588

Of the total loans and receivables as at December 31, 2017 and 2016, 57.98% and 61.48% respectively, are subject to periodic interest repricing. The remaining peso-denominated loans have annual fixed interest ranging from 3.50% to 21.60% in 2017 and 3.00% to 18.90% in 2016.

The movements in the allowance for credit and impairment losses on loans and receivables follow:

	2017			Total
	Corporate Lending	Consumer Lending	Sales Contract Receivable	
Balance at beginning of year	P183,096,175	P305,918,837	P-	P489,015,012
Provision	22,293,095	65,513,349	1,031,636	88,838,080
Write-off	(55,486,112)	(3,253,618)	-	(58,739,730)
Balance at end of year	P149,903,158	P368,178,568	P1,031,636	P519,113,362
Specific impairment	P118,732,003	P154,083,699	P1,031,636	273,847,338
Collective impairment	31,171,155	214,094,869	-	245,266,024
	P149,903,158	P368,178,568	P1,031,636	P519,113,362
Gross amount of loans individually determined to be impaired	P411,353,990	P507,767,719	P3,136,728	P922,258,437

	2016		
	Corporate Lending	Consumer Lending	Total
Balance at beginning of year	₱168,888,568	₱278,956,013	₱447,844,581
Provision	25,675,876	26,962,824	52,638,700
Write-off	(11,468,269)	–	(11,468,269)
Balance at end of year	₱183,096,175	₱305,918,837	₱489,015,012
Specific impairment	₱163,188,152	₱85,399,189	₱248,587,341
Collective impairment	19,908,023	220,519,648	240,427,671
	₱183,096,175	₱305,918,837	₱489,015,012
Gross amount of loans individually determined to be impaired	₱315,842,821	₱330,027,618	₱645,870,439

11. Assets Held for Sale

This account consists of properties acquired/foreclosed in settlement of loans and receivables aggregating to ₱263.7 million and ₱210.2 million as at December 31, 2017 and 2016, respectively.

Loans and receivables amounting to ₱254.4 million and ₱224.3 million were reclassified to assets held for sale in 2017 and 2016, respectively.

“Net losses from assets sold or acquired” in the statements of income consist of the following:

	Note	2017	2016
Assets held for sale:			
Loss on foreclosure		(₱26,229,899)	(₱18,442,256)
Loss on sale		(13,381,773)	(18,338,002)
Gain on sale of property and equipment	12	320,856	673,705
		(₱39,290,816)	(₱36,106,553)

As at December 31, 2017 and 2016, unrealized loss on foreclosure amounted to ₱11.7 million and ₱7.3 million, respectively. Provision for impairment loss on assets held for sale amounted to ₱270,440 and ₱1.9 million in 2017 and 2016, respectively.

12. Property and Equipment

Movements in this account are as follows:

	2017				Total
	Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost					
Balance at beginning of year	₱164,344,500	₱249,954,716	₱363,601,380	₱262,852,055	₱1,040,752,651
Additions	–	–	36,512,786	28,757,016	65,269,802
Disposals	–	(647,400)	(21,582,890)	(473,434)	(22,703,724)
Balance at end of year	164,344,500	249,307,316	378,531,276	291,135,637	1,083,318,729

(Forward)

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	2017				Total
	Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Accumulated Depreciation and Amortization					
Balance at beginning of year	₱-	₱93,302,189	₱276,342,456	₱218,181,230	₱587,825,875
Depreciation and amortization	-	6,629,420	30,062,264	26,533,752	63,225,436
Disposals	-	-	(19,734,840)	(461,141)	(20,195,981)
Balance at end of year	-	99,931,609	286,669,880	244,253,841	630,855,330
Accumulated Impairment					
Balance at beginning of year	-	2,667,217	-	-	2,667,217
Reversal	-	(2,667,217)	-	-	(2,667,217)
Balance at end of year	-	-	-	-	-
Carrying Amount	₱164,344,500	₱149,375,707	₱91,861,396	₱46,881,796	₱452,463,399

	2016				Total
	Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost					
Balance at beginning of year	₱164,344,500	₱249,213,655	₱333,373,500	₱263,683,140	₱1,010,614,795
Additions	-	85,000	38,295,655	309,376	38,690,031
Disposals	-	(123,456)	(8,067,775)	(360,944)	(8,552,175)
Reclassifications	-	779,517	-	(779,517)	-
Balance at end of year	164,344,500	249,954,716	363,601,380	262,852,055	1,040,752,651
Accumulated Depreciation and Amortization					
Balance at beginning of year	-	80,645,752	253,373,456	180,739,818	514,759,026
Depreciation and amortization	-	12,463,347	29,878,028	37,953,419	80,294,794
Disposals	-	(34,092)	(6,909,028)	(284,825)	(7,227,945)
Reclassifications	-	227,182	-	(227,182)	-
Balance at end of year	-	93,302,189	276,342,456	218,181,230	587,825,875
Accumulated Impairment					
Balance at beginning and end of year	-	2,667,217	-	-	2,667,217
Carrying Amount	₱164,344,500	₱153,985,310	₱87,258,924	₱44,670,825	₱450,259,559

Gain from sale of property and equipment included under “Net losses from assets sold or acquired” in the statements of income amounted to ₱320,856 and ₱673,705 in 2017 and 2016, respectively (see Note 11).

As at December 31, 2017 and 2016, the cost of fully depreciated assets which are still used in operations amounted to ₱322.8 million and ₱289.0 million, respectively.

The fair value of the land, which is based on the latest independent appraisal report performed by professional appraiser amounted to ₱464.3 million.

Details of depreciation and amortization are as follows:

	Note	2017	2016
Property and equipment		₱63,225,436	₱80,294,794
Computer software	13	7,810,266	1,522,683
		₱71,035,702	₱81,817,477

13. Intangible Assets

This account consists of:

	2017	2016
Branch licenses	₱225,390,000	₱225,390,000
Computer software	73,402,117	59,819,686
	₱298,792,117	₱285,209,686

Branch licenses are recognized through business combination, including the branch licenses of CSB, amounting to ₱128.0 million, and licensing fees incurred in opening additional branches.

As at December 31, 2017 and 2016, the Bank has a total of 47 branches, 18 of which are in restricted areas.

The impairment test on branch licenses is based on value-in-use calculations determined using a discounted cash flow model. The recoverable amount of the CGU has been determined based on cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 5.38% in 2017 and 2016, and cash flows beyond the five year-period are extrapolated using a steady growth rate of 20% in 2017 and 2016, which does not exceed the long-term average growth rate for the industry.

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rate
- Steady growth rate used to extrapolate cash flows beyond the projection period
- Local inflation rate

The key assumptions are consistent with information from external sources. With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the foregoing key assumptions would cause the carrying value of the branch licenses to materially exceed its recoverable amount.

Movements of computer software are as follows:

	Note	2017	2016
Cost			
Balance at beginning of year		₱263,524,939	₱203,751,561
Additions		21,392,697	59,773,378
Balance at end of year		284,917,636	263,524,939
Accumulated Amortization			
Balance at beginning of year		203,705,253	202,182,570
Amortization	12	7,810,266	1,522,683
Balance at end of year		211,515,519	203,705,253
Carrying Amount		₱73,402,117	₱59,819,686

14. Other Assets

This account consists of:

	Note	2017	2016
Prepaid expenses		₱57,429,493	₱49,053,686
Refundable deposits	20	27,668,123	23,283,099
Other investments		3,663,333	4,663,333
Documentary stamp taxes		2,796,958	2,276,393
Stationary and supplies		1,925,602	2,426,907
Deferred lease		1,664,465	752,112
Others		11,718,185	8,294,905
		₱106,866,159	₱90,750,435

Prepaid expenses include prepaid rentals, group life insurance, and employee benefits related to the car plan for the officers of the Bank.

Refundable deposits include noninterest-bearing rental deposits. Unamortized discount on refundable deposits amounted to ₱1.7 million and ₱752,112 as at December 31, 2017 and 2016, respectively. Accretion recognized under "Interest income on due from BSP and other banks" amounted to ₱824,968 and ₱845,705 in 2017 and 2016, respectively.

Other investments represent membership fees in Bancnet and Credit Management Association of the Philippines.

Deferred lease pertains to the difference between the nominal value of the refundable deposit and its fair value at inception of the lease, which is amortized as expense on a straight-line basis over the lease term (see Note 20).

Others mainly consist of RCOI and deposit with a health care agency for the Bank's employee health plan.

15. Deposit Liabilities

This account is consists of:

	2017	2016
Time	₱22,477,251,998	₱19,758,725,138
Demand	7,776,434,094	6,794,595,797
Savings	4,369,022,708	2,929,707,705
	₱34,622,708,800	₱29,483,028,640

BSP Circular 832, *Increase in Reserve Requirements*, promulgated the 1.00% increase from 7.00% to 8.00% in the reserve requirements on peso deposit liabilities and deposit substitutes.

As mandated by BSP Circular 753, *Unification of the Statutory/Legal and Liquidity Reserve Requirement, Non-Remuneration of the Unified Reserve Requirement, Exclusion of Vault Cash and Demand Deposits as Eligible Forms of Reserve Requirement Compliance, and Reduction in the Unified Reserve Requirement Ratios*, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirements should earn interest.

As at December 31, 2017 and 2016, the Bank is compliant with the foregoing BSP regulations. The available reserves, which form part of "Due from Bangko Sentral ng Pilipinas," as at December 31, 2017 and 2016 are as follows:

	2017	2016
Due from BSP - demand deposit account	₱2,519,965,700	₱2,142,340,882

As at December 31, 2017 and 2016, 59.84% and 61.70% of the total deposit liabilities, respectively, are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rate as follows:

	2017	2016
Peso-denominated	0.25% to 4.10%	0.25% to 2.00%
Dollar-denominated	0.25% to 2.25%	0.25% to 1.73%

Interest expense charged to the statements of income is as follows:

	Note	2017	2016
Deposit liabilities:			
Time		₱477,193,347	₱408,205,981
Demand		17,409,226	15,082,237
Savings		14,343,012	11,361,030
		508,945,585	434,649,248
Unsecured subordinated debt	17	47,119,977	30,708,904
Others		442,369	157,056
		₱556,507,931	₱465,515,208

16. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2017	2016
Accrued expenses:		
Interest	₱53,405,194	₱37,116,568
Compensation and other benefits	31,143,700	31,130,579
Rent	11,202,641	16,238,428
Security, messengerial and janitorial	8,759,439	7,460,190
Automated teller machine related expenses	4,130,026	1,518,719
Utilities and leased line	4,048,675	4,888,241
Others	17,177,393	14,937,512
	129,867,068	113,290,237
Accrued gross receipts tax	5,332,638	7,213,765
	₱135,199,706	₱120,504,002

Accrual for other expenses pertains to expenses for insurance, publications, repairs and maintenance.

17. Unsecured Subordinated Debt

On June 1, 2017, the MB of the BSP, in its Resolution No. 900, approved the Bank's issuance of unsecured subordinated debt with principal amount aggregating ₱1.0 billion, which was issued on July 18, 2017 and bears 5.70 % interest, payable quarterly.

The unsecured subordinated debt will mature after 10 years from issuance date but may be called by the Bank on any interest payment date after the 5th year of issuance at principal amount plus accrued interest.

On September 12, 2017, the Bank exercised its option to recall all of their previously issued Unsecured Subordinated Debt with principal amount of ₱500.0 million and interest rate of 6.125% per annum.

Interest expense on unsecured subordinated debt amounted to ₱47.1 million and ₱30.7 million in 2017 and 2016, respectively (see Note 15).

18. Other Liabilities

This account consists of:

	Note	2017	2016
Accounts payable		₱804,228,598	₱669,857,155
Due to PDIC		32,997,235	27,322,517
Withholding taxes		18,304,822	17,622,150
Marginal deposits		4,873,190	3,778,605
Payment orders		3,735,295	527,172
Bills purchased - contra	10	3,375,913	6,724,959
Statutory obligations		2,641,979	2,428,117
Others		22,574,898	18,407,217
		₱892,731,930	₱746,667,892

Accounts payable pertain to payables for cash cards, chattel mortgage, insurance and loan service fees, Bancnet and VISA, stale checks, incoming dollar remittances to the Bank for payment to various payees as part of its intermediary services, and remaining balances on purchases of property and equipment. Accounts payable are noninterest-bearing and normally settled within one year.

Due to PDIC pertains to the Bank's insurance premium on deposit liabilities, which was subsequently paid a month after the reporting date.

Marginal deposits are non-interest bearing deposits made by borrowers upon opening letters of credit.

Payment orders consist of domestic borrowings from non-bank financial intermediaries for limited purpose of financing. Excluded are borrowings from the BSP and other local commercial banks.

Others mainly consist of dormant deposit accounts.

19. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities as at December 31, 2017 and 2016 analyzed according to whether these are expected to be recovered or settled within 12 months or over 12 months from the reporting date:

	Note	2017			2016		
		Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Financial Assets							
Cash and other cash items		₱629,416,734	₱–	₱629,416,734	₱625,137,059	₱–	₱625,137,059
Due from BSP		2,519,965,700	–	2,519,965,700	3,142,341,082	–	3,142,341,082
Due from other banks		4,333,505,485	–	4,333,505,485	1,753,369,339	–	1,753,369,339
Interbank loans receivable	6	453,983,478	–	453,983,478	2,356,564,116	–	2,356,564,116
Financial assets at FVPL	7	158,685,215	–	158,685,215	501,491,653	–	501,491,653
AFS financial assets	8	–	1,174,250,651	1,174,250,651	61,978,496	1,311,976,222	1,373,954,718
HTM investments	9	–	–	–	–	351,441,287	351,441,287
Loans and receivables - gross	10	16,977,216,827	12,990,311,626	29,967,528,453	13,085,084,597	10,157,096,175	23,242,180,772
Other assets ¹	14	28,433,454	–	28,433,454	24,220,747	–	24,220,747
		25,101,206,893	14,164,562,277	39,265,769,170	21,550,187,089	11,820,513,684	33,370,700,773
Nonfinancial Assets							
Assets held for sale	11	263,687,853	–	263,687,853	210,179,719	–	210,179,719
Property and equipment	12	–	1,083,318,729	1,083,318,729	–	1,040,752,651	1,040,752,651
Intangible assets	13	–	510,307,636	510,307,636	–	488,914,939	488,914,939
Deferred tax assets	23	–	10,754,822	10,754,822	–	17,054,774	17,054,774
Other assets	14	–	78,432,705	78,432,705	–	66,529,688	66,529,688
		263,687,853	1,682,813,892	1,946,501,745	210,179,719	1,613,252,052	1,823,431,771
		25,364,894,746	15,847,376,169	41,212,270,915	21,760,366,808	13,433,765,736	35,194,132,544
Less:							
Allowance for credit and impairment losses ²	10, 12	–	519,113,362	519,113,362	–	491,682,229	491,682,229
Accumulated depreciation and amortization	12, 13	–	842,370,849	842,370,849	–	791,531,128	791,531,128
Unearned discounts and capitalized interest	10	–	5,393,752	5,393,752	–	7,069,779	7,069,779
		–	1,366,877,963	1,366,877,963	–	1,290,283,136	1,290,283,136
		₱25,364,894,746	₱14,480,498,206	₱39,845,392,952	₱21,760,366,808	₱12,143,482,600	₱33,903,849,408
Financial liabilities							
Deposit liabilities	15	₱33,318,956,843	₱1,303,751,957	₱34,622,708,800	₱27,164,866,325	₱2,318,162,315	₱29,483,028,640
Manager's checks		185,381,487	–	185,381,487	230,306,123	–	230,306,123
Accrued interest, taxes and other expenses	16	129,867,068	–	129,867,068	109,966,905	3,323,332	113,290,237
Unsecured subordinated debt	17	–	1,000,000,000	1,000,000,000	–	500,000,000	500,000,000
Other liabilities	18	871,785,129	–	871,785,129	726,617,622	–	726,617,622
		34,505,990,527	2,303,751,957	36,809,742,484	28,231,756,975	2,821,485,647	31,053,242,622
Nonfinancial liabilities							
Accrued taxes and other expenses ³	16	5,681,666	–	5,681,666	7,213,765	–	7,213,765
Retirement liability		–	67,313,121	67,313,121	–	72,072,910	72,072,910
Income tax payable		24,654,549	–	24,654,549	26,204,165	–	26,204,165
Other liabilities ⁴	18	20,946,801	–	20,946,801	20,050,270	–	20,050,270
		51,283,016	67,313,121	118,596,137	53,468,200	72,072,910	125,541,110
		₱34,557,273,543	₱2,371,065,078	₱36,928,338,621	₱28,285,225,175	₱2,893,558,557	₱31,178,783,732

¹ Other financial assets pertain to refundable deposits and RCOCI (see Note 14).

² Allowance for credit and impairment losses includes allowance for credit and impairment losses of loans and receivables (see Note 10) and accumulated impairment of property and equipment (see Note 12).

³ Accrued taxes and other expenses pertain to gross receipt tax (see Note 16).

⁴ Other non-financial liabilities pertain to withholding tax payable and, statutory liabilities (see Note 18).

20. Operating Leases

The Bank leases the premises being occupied by certain branches for periods ranging from five to 10 years, renewable under certain terms and conditions. Rent expense included under "Occupancy" in the statements of income amounted to ₱95.2 million and ₱83.1 million in 2017 and 2016, respectively.

At the inception of the lease, the Bank pays the lessors security deposits, which are noninterest-bearing and are refundable upon termination of the lease agreements. Refundable deposits related to lease of properties amounted to ₱27.7 million and ₱23.3 million in 2017 and 2016, respectively (see Note 14).

The following table presents the future minimum lease payments of the Bank for non-cancellable leases:

	2017	2016
Within one year	₱22,085,082	₱16,710,853
More than one year but not more than five years	28,539,007	14,178,194
	₱50,624,089	₱30,889,047

21. Retirement Benefits

The Bank has a funded, noncontributory defined benefit retirement plan covering all of its officers and regular employees. Under the retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The retirement fund of the Bank is placed under the management of the Bank's Trust Group starting in 2013 with oversight from the Bank's Retirement Fund Committee, which is appointed by the BOD. The Retirement Plan Trustee, as appointed by the Bank, in the Trust Agreement, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund.

The retirement benefits recognized in the statements of income follow:

	2017	2016
Current service cost	₱15,392,114	₱14,160,589
Net interest cost	3,586,703	3,154,766
	₱18,978,817	₱17,315,355

Details of cumulative remeasurement gain (loss) follow:

	2017		
	Cumulative Remeasurement Gain	Deferred Tax (see Note 23)	Net
Balance at beginning of year	₱1,546,454	₱463,936	₱1,082,518
Remeasurement gain	21,922,284	6,576,685	15,345,599
Balance at end of year	₱23,468,738	₱7,040,621	₱16,428,117

	2016		
	Cumulative Remeasurement Gain (Loss)	Deferred Tax (see Note 23)	Net
Balance at beginning of year	₱1,709,437	₱512,831	₱1,196,606
Remeasurement loss	(162,983)	(48,895)	(114,088)
Balance at end of year	₱1,546,454	₱463,936	₱1,082,518

Retirement liability is as follows:

	2017	2016
Present value of retirement obligation	₱80,629,570	₱85,211,757
Fair value of plan assets	(13,316,449)	(13,138,847)
	₱67,313,121	₱72,072,910

Movements in the present value of retirement liability follow:

	2017	2016
Balance at beginning of year	₱85,211,757	₱67,642,011
Current service cost	15,392,114	14,160,589
Remeasurement gain:		
Changes in demographic assumptions	(9,282,661)	–
Experience adjustment	(7,239,296)	–
Changes in financial assumptions	(5,884,923)	–
Interest cost	4,248,901	3,409,157
Benefits paid	(1,816,322)	–
Balance at end of year	₱80,629,570	₱85,211,757

Movements in the fair value of the plan assets follow:

	2017	2016
Balance at beginning of year	₱13,138,847	₱5,047,439
Interest income	662,198	254,391
Remeasurement loss (excluding amount included in net interest)	(484,596)	(162,983)
Contributions paid	–	8,000,000
Balance at end of year	₱13,316,449	₱13,138,847

The plan assets are carried at fair value. All equity, debt instruments and investments of the pooled funds held have quoted prices in active market. The fair value of other assets and liabilities, which include deposits in banks, BSP's special deposit account, accrued interest and other receivables and trust fee payables, approximate carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments. Those in short-term placements will be further invested depending on the market direction.

The fair value of plan assets by class follows:

	2017	2016
Debt instruments:		
Government securities	30%	15%
Private bonds	17%	7%
	47%	22%
Time certificates	47%	72%
Investments in Unit Investment Trust Funds	4%	4%
Equity instruments	2%	2%
Fair value of plan assets	100%	100%

The principal actuarial assumptions used in determining the retirement liability as at December 31, 2017 and 2016 are shown below:

	2017	2016
Discount rate	5.76%	5.04%
Salary increase	3.00%	3.00%

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

	Basis Points	Effect on Retirement Liability
Discount rate	+100 bps	(P73,449,299)
	-100 bps	89,031,383
Salary increase rate	+100 bps	89,523,544
	-100 bps	(72,931,004)

The average duration of the defined benefit obligation at the end of the reporting year is 20.64 years.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2017:

Less than one year	P7,831,330
One to less than five years	31,753,929
Five to less than 10 years	56,831,687
10 to less than 15 years	88,156,184
15 to less than 20 years	139,038,544
20 years and above	240,164,475
	P563,776,149

22. Other Operating Expenses

Other expenses consist of:

	2017	2016
Appraisal fees	₱57,585,570	₱17,465,485
Fees and commissions	45,480,245	61,951,602
Repairs and maintenance	44,653,171	38,664,492
Postage	36,571,216	40,200,552
Litigation cost	17,916,832	11,296,908
Transportation and travel	15,626,191	10,576,095
Supervision fees	10,933,441	10,490,638
Management and other professional fees	7,717,258	10,806,262
Promotions and advertising	3,793,720	3,010,073
Others	48,740,162	23,413,080
	₱289,017,806	₱227,875,187

Others include office supplies, advertising, and fines and penalties.

23. Income and Other Taxes

Current income tax expense consists of:

	2017	2016
Regular corporate income tax (RCIT)	₱83,853,831	₱85,498,546
Final tax	26,393,868	25,430,952
	₱110,247,699	₱110,929,498

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 gross receipts tax (GRT) and documentary stamp tax.

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate is 30% and interest expense allowed as deductible expense is reduced by 33% of interest income subjected to final tax.

RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and Foreign Currency Deposit Units*, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, off-shore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency-denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% onshore income tax.

The reconciliation between the statutory income tax and effective income tax follows:

	2017	2016
Statutory income tax	₱85,962,917	₱55,092,235
Tax effects of:		
Nondeductible expenses	101,626,522	128,114,858
Interest income subject to final tax	(55,199,654)	(54,170,501)
Non-taxable income	(35,425,030)	(45,172,009)
Changes in unrecognized deferred tax assets	13,006,211	11,546,534
	₱109,970,966	₱95,411,117

Deferred tax assets and liabilities consist of:

	2017	2016
Deferred tax assets on:		
Allowance for credit and impairment losses	₱45,425,325	₱45,053,448
Allowance for impairment losses on assets held for sale	4,104,568	4,023,436
Unrealized loss on foreclosure of acquired assets	3,518,680	2,184,220
Accrued rent	3,360,792	4,871,528
	56,409,365	56,132,632
Deferred tax liabilities on:		
Fair value adjustment on branch licenses acquired in business combination	(38,400,000)	(38,400,000)
Remeasurement gain on retirement liability	(7,254,543)	(677,858)
	(45,654,543)	(39,077,858)
Net deferred tax assets	₱10,754,822	₱17,054,774

Net deferred tax expense (benefit) are recognized as follows:

	2017	2016
Through:		
Profit or loss	₱18,009,365	₱17,732,632
Other comprehensive income	(7,254,543)	(677,858)
	₱10,754,822	₱17,054,774

Movements of net deferred tax expense (benefit) are recognized as follows:

	2017	2016
Through:		
Profit or loss	₱276,733	(₱27,202,106)
Other comprehensive income	(6,576,685)	48,895
	(₱6,299,952)	(₱27,153,211)

As at December 31, 2017 and 2016, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences.

	2017	2016
Allowance for credit and impairment losses	P367,695,612	P338,836,854
Retirement liability	91,495,563	74,333,068
Accumulated impairment of property and equipment	-	2,667,217
	P459,191,175	P415,837,139

Management assessed that it is not probable that sufficient future taxable profit will be available to allow the unrecognized deferred tax assets to be utilized.

24. Capital Stock

As at December 31, 2017 and 2016, this account consists of:

	Number of Shares	Amount
Authorized - P10 par value		
Common stock	300,000,000	P3,000,000,000
Perpetual preferred stock	100,000,000	1,000,000,000
Issued and outstanding:		
Common stock -		
Balance at beginning and end of year	207,000,000	P2,070,000,000
Perpetual preferred stock -		
Balance at beginning and end of year	30,000,000	P300,000,000

The perpetual preferred stock, which has an annual dividend rate of 4.375%, is cumulative and has no voting rights. As at December 31, 2017 and 2016, cumulative preference dividends amounted to P46.8 million and P33.7 million, respectively.

25. Related Party Transactions and Balances

In the ordinary course of business, the Bank can enter into loan and other transactions with its related parties 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. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of 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.

BSP Circular No. 560, *Ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and affiliates*, provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates should not exceed 10.00% of a bank's net worth, the unsecured portion should not exceed 5.00% of such net worth. Further, the total outstanding exposures should not exceed 20.00% of the net worth of the lending bank.

BSP Circular No. 423, *Amendments to Sections X326 to X338 of the Manual of Regulations of Banks*, provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI accounts of the Bank:

	2017	2016
Total outstanding DOSRI loans	₱159,407,988	₱150,055,134
Percent of DOSRI accounts granted under BSP Circular No. 423	0.54%	0.63%
Percent of DOSRI accounts to total loans	0.54%	0.63%

Any violation of the provisions under BSP Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as avancements of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Total interest income on DOSRI accounts amounted to ₱8.7 million and ₱10.8 million in 2017 and 2016, respectively.

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

The significant transactions and account balances with respect to related parties that are included in the financial statements follow:

Nature of Transactions	2017		2016	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Key Management Personnel				
Loans and receivables	₱12,911,000	₱9,210,988	₱338,000	₱3,340,014
Interest income	337,421	-	313,803	-
Deposit liabilities	316,236,053	29,300,911	266,793,062	38,294,267
Interest expense	344,020	20,882	810,957	-
Accounts receivables	16,721,589	33,210,659	11,589,152	28,524,599
Subsidiaries of the Parent Company				
Loans and receivables	567,972,040	569,655,088	492,865,000	149,033,931
Accrued interest income	14,742,631	-	11,051,574	-
Deposit liabilities	49,235,415,101	318,094,569	183,415,469,232	634,318,583
Accrued interest expense	1,993,541	20,828	1,536,323	21,158
Trust fee	569,119	-	527,200	-
Rent expense	6,585,456	-	5,368,674	-
Parent Company				
Deposit liabilities	984,312,194	20,612,857	781,347,103	66,543,393
Interest expense	3,753	-	44,519	-
Stockholders				
Loans and receivables	1,000,000	-	2,000,000	1,021,204
Accrued interest income	29,532	-	82,636	-
Deposit liabilities	1,083,442,829	74,916,692	2,377,805,033	162,547,904
Accrued interest expense	529,263	16,451	969,889	55,029

Terms and Conditions

Loans and receivables are secured by chattel mortgages, deposits and real estate properties, having terms ranging from one to 18 years, and bear interest ranging from 3.00% to 12.00% in 2017 and 2016. As at December 31, 2017 and 2016, no provision for credit and impairment losses was recognized relating to receivables from related parties.

Deposits have interest ranging from 0.25% to 2.00% for both 2017 and 2016.

Trust fees pertain to fees charged for trust operations. These are included under “Other expenses” in the statements of income.

Rent expense pertains to leases of ATM and branch premises.

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

	2017	2016
Short-term employee benefits	₱83,352,809	₱81,315,260
Post-employment retirement benefits	3,647,128	4,567,231
	₱86,999,937	₱85,882,491

Transactions with Retirement Plan

The retirement plan of the Bank is considered as a related party. The retirement plan is in the form of a trust administered by the Trust Group under the supervision of the Retirement Fund Committee. The values of the assets of the fund are as follows (see Note 21):

	2017	2016
Investments in:		
Time deposit	₱6,309,667	₱9,467,733
UITF	522,345	483,914
Debt instruments	6,167,637	2,860,200
Equity instruments	316,800	327,000
	₱13,316,449	₱13,138,847

26. Trust Operations

On May 21, 2008, the Bank was granted a license by the BSP to conduct its trust operations. The Bank started its trust operations on June 2, 2008.

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank. Total assets held by the Bank’s Trust Group amounted to ₱7.9 billion and ₱6.1 billion as at December 31, 2017 and 2016, respectively.

In compliance with current banking regulations relative to the Bank’s trust operations, government securities included under AFS financial assets with a total face value of ₱84.0 million and ₱62.0 million as at December 31, 2017 and 2016, respectively, are deposited with the BSP. In addition, 10% of the Bank’s net income realized from its trust operations is appropriated to

surplus reserve until such reserve for trust operations amounts to 20% of the Bank's regulatory capital.

27. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingencies such as guarantees and commitments to extend credit, which are not reflected in the financial statements. The Bank does not anticipate significant losses as a result of these transactions.

As at December 31, 2017 and 2016, the Bank is involved in various legal proceedings pertaining to collectibility of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank's defense in these matters and is based on an analysis of potential results. Based on the opinion of its legal counsels, the Bank is in a good position to secure a favorable judgment in most of these cases. Management therefore believes that the ultimate outcome of these proceedings will not have a material adverse effect on the financial position and performance.

The following is a summary of the commitments and contingencies at their equivalent contractual amounts:

	2017	2016
Investment management account	₱7,803,097,955	₱5,960,234,242
Spot exchange	485,837,158	402,840,539
Trust group accounts	134,511,037	174,991,408
Domestic letters of credit (LC)	30,300,000	16,774,800
Inward bills for collection	20,543,869	6,567,199
Sight/usance domestic LC	16,537,163	14,117,894
Outstanding guarantees issued - others	8,368,277	8,966,848
Sight/usance foreign LC	1,292,158	45,437,018
Items held for safekeeping	108,063	122,110
Items held as collateral	9,158	6,819
Late payment deposit/payment received	-	945,970

28. Financial Performance

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

	2017	2016
Return on average equity	6.26%	3.37%
Return on average assets	0.48%	0.27%
Net interest margin on average earning assets	4.50%	4.27%

29. Supplementary Information Required by the Bureau of Internal Revenue (BIR)
Revenue Regulations No. 15-2010Gross Receipt Tax (GRT)

The Bank is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, fees and commissions from lending activities at 5.00% or 1.00%, depending on the loan term, and at 7.00% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

The details of the GRT expense and corresponding GRT tax base in 2017 are as follows:

	GRT Tax Base	GRT
Interest income	₱2,020,327,807	₱95,843,935
Others	281,206,441	18,296,672
	₱2,301,534,248	₱114,140,607

Taxes and Licenses

This includes all other taxes, local and national, incurred in 2017 and lodged under the “Taxes and licenses” account in the statements of comprehensive income, as follows:

	Amount
GRT	₱114,140,607
Documentary stamp taxes	91,944,096
Real estate, municipal and other taxes	8,576,965
Fringe benefit taxes	3,165,466
Car registration	129,035
	₱217,956,169

Withholding Taxes

Details of total remittances in 2017 and balances in 2017 follow:

	Paid	Accrued	Total
Final withholding taxes	₱85,517,675	₱8,241,523	₱93,759,198
Compensation taxes	84,881,335	8,558,669	93,440,004
Expanded withholding taxes	16,132,063	1,502,209	17,634,272
	₱186,531,073	₱18,302,401	₱204,833,474

Tax Assessments and Cases

As at December 31, 2017, the Bank has no tax assessments and no outstanding tax cases, litigation and/or prosecution in courts or bodies outside the BIR.

Revenue Regulations No. 19-2011Taxable Income

Taxable interest income of RBU and FCDU amounted to ₱1,830,665,934 and ₱6,651,473, respectively.

The difference between taxable interest income and the interest income presented in the statement of income is as follows:

Interest income already subjected to final tax	₱183,998,848
Exempt interest income	118,083,433
	₱302,082,281

Deductible Cost of Services and Itemized Deductions

Deductible costs of services of the Bank are as follows:

	RBU	FCDU	Total
Interest expense	₱453,628,855	₱4,904,958	₱458,533,813
Compensation and fringe benefits	341,147,004	5,294,433	346,441,437
Insurance	53,742,752	2,074,778	55,817,530
Supervision	9,809,392	159,165	9,968,557
	₱858,328,003	₱12,433,334	₱870,761,337

Itemized deductions of the Bank are as follows:

	RBU	FCDU	Total
Taxes and licenses	₱204,598,403	₱6,722,648	₱211,321,051
Compensation and fringe benefits	134,878,009	2,285,163	137,163,172
Occupancy	112,870,446	1,721,835	114,592,281
Depreciation and amortization	65,101,925	1,038,339	66,140,264
Write-off of allowance for impairment losses on loans and receivables	58,739,730	-	58,739,730
Security, messengerial and janitorial	53,202,048	848,543	54,050,591
Appraisal fees	52,775,315	841,735	53,617,050
Repairs and maintenance	40,211,201	641,344	40,852,545
Telephone and cable lines	33,517,616	534,250	34,051,866
Fees and commissions	21,045,996	2,319,467	23,365,463
Representation and entertainment	21,721,319	329,983	22,051,302
Litigation cost	17,916,832	-	17,916,832
Loss on foreclosure of acquired assets	14,500,965	-	14,500,965
Loss on sale of acquired assets	13,381,773	-	13,381,773
Transportation and travel	11,881,018	167,837	12,048,855
Management and other professional fees	7,072,620	112,804	7,185,424
Promotions and advertising	3,476,821	55,453	3,532,274
Insurance	2,741,741	43,728	2,785,469
Others	47,467,343	172,009	47,639,352
	₱917,101,121	₱17,835,138	₱934,936,259

The difference between the deductible cost of services and itemized deductions shown above and the interest expense on deposit liabilities and others, operating expenses and provision for credit and impairment losses presented in the statement of income includes loss on foreclosure amounting to ₱14,500,965 and loss on sale of acquired assets amounting to ₱13,381,773, which are previously presented under other income and charges, as well as the following:

Operating expenses allocated to exempt and transactions already subjected to final tax	₱102,456,011
Nondeductible interest expense	97,974,118
Provision for credit and impairment losses	88,838,080
Write-off of allowance for impairment losses on loans and receivables	(58,739,730)
Nondeductible expenses	52,417,846
Retirement benefits	18,178,817
Accrued rent	(4,275,879)
Provision for impairment of assets held for sale	270,440
	₱297,119,703

Other Taxable Income

	RBU	FCDU	Total
Service charges, fees and commissions	₱186,880,745	₱23,492,529	₱210,373,274
Trading and securities gains	15,549,977	3,458,705	19,008,682
Foreign exchange gain (loss)	523,897	(604,393)	(80,496)
Others	18,591,497	-	18,591,497
	₱221,546,116	₱26,346,841	₱247,892,957

The difference between other income and charges presented in statement of income and other taxable income includes loss on foreclosure amounting to ₱14,500,965 and loss on sale of acquired assets amounting to ₱13,381,773, as well as the following:

Net trading gains on exempt transactions	₱12,931,627
Loss on foreclosure	(11,728,934)
Unrealized trading losses	(4,715,072)
Dividend income	3,786,000
Unrealized foreign exchange gains	1,794,089
	₱2,067,710

STERLING BANK OF ASIA INC. (A Savings Bank)
SUPPLEMENTARY SCHEDULE OF ADOPTION OF
EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2017

Title	Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements	✓		
Conceptual Framework Phase A: Objectives and qualitative characteristics			
PFRS Practice Statement Management Commentary			✓

Philippine Financial Reporting Standards (PFRS)

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendment to PFRS 5: Changes in Methods of Disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments			✓
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓

Philippine Accounting Standards (PAS)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation	✓		
	Amendment to PAS 16: Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓

PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

Optima

Business Banking Solutions

Optima is Sterling Bank of Asia's value-added solution to your business. It is a unique business account that comes with cash management facilities to help you minimize overhead expenses, streamline operations, and most importantly, improve your company's bottom line.

With Optima, one single account can now take care of the disbursements, collections, and investments of your company's financial resources.



Our Business Solutions

Financial System

A stand-alone financial system that provides more convenient processing and monitoring of sales and purchases, inventory, and other financial reports, including government reports.

Aside from the creation, modification, viewing, and printing of financial statements (i.e. balance sheets, income statements, financial ratios, cash flows, etc.), you can also do a bank reconciliation on your account/s and have an up-to-date monitoring of your funds.

- Definition of user's profile
- Consolidation of modules
- Recording of sales, receivables, purchases, and payables
- Audit logs from reports
- Tracking of inventory movement
- Modification of forms

Check Warehousing

Managing post-dated checks just got easier with Optima's Check Warehousing Facility. With automatic deposit, on-time crediting, and monitoring features, you can be secure that all your checking needs are handled, as you focus on more crucial aspects of your business.

- Automatic deposit of PDCs
- Inventory keeping
- Check pull-out, replacement, and re-deposit are allowed
- On-time crediting
- Check monitoring
- Security assurance

Check Writing

Optima provides you with a flexible and secure facility to easily prepare your check disbursements. You can also encode, upload, and generate payable reports with GL entries while having the basic function of a check writing system.

- Encode/upload payable data
- Authorize/limit system access
- Printing of scanned signature on checks
- Generation of payable report with GL entries
- Printing of BIR form 2307

Payroll Crediting

With Optima Payroll Crediting Facility, late salaries are a thing of the past. It automatically credits salaries to each employee's ATM Payroll Account in real time, while maintaining encrypted payroll-related bank files to safeguard everyone's privacy. No maintaining balance requirement also means Optima allows your employees to enjoy more freedom in handling their funds.

- Encrypted payroll-related bank files
- Real-time crediting

Payroll Service

A payroll service that comes with a software developed exclusively for Sterling Bank of Asia clients that provides an electronic solution for Human Resource Management and payroll processing for any business size.

- Automated payroll processing
- Uploadable payroll data
- Generates of standard payroll and government reports
- Includes Human Resource Information System
- Free technical support

Sterling Bank Online - Corporate Banking

Be where your growth takes you, and Sterling Bank of Asia is with you all the way.

With Sterling Bank Online - Corporate, monitoring and managing your funds will be right at your fingertips. With desktop and mobile platforms, you can do it all, anytime, anywhere.

- Balance inquiry
- Transaction history
- Fund transfer (intrabank)
- Bills payment

Products & Services

Personal Banking



The Solo Savings Series

Solo Savings Account

Our Peso Savings Account. Easy to access, even easier to maintain. Uncomplicated banking at its best.



Solo Dollar Savings Account

Just like our Peso Savings Account, you can open a dollar savings account with much ease and at the comfort of your own time. Here's the deal — we'll count your pennies, you'll count the blessings!

Solo Yuan Savings Account

With an opening balance requirement of CNY 2,500.00 and a minimum ADB requirement of CNY 2,500.00, you can already get a competitive interest rate of 0.15% per annum credited monthly to your account.



Neo Savings Account

A fun, colorful future awaits! Paint your children's future bright with Neo Savings Account. Neo is a special savings deposit account for kids ages 19 and below. Through Neo, your kids can already save and earn at the same time at an early age and grow their money for their own future.



Bayani OFW Savings Account

By offering this type of account, the bank aims to help develop the habit of saving and improve financial management skills of OFWs and their families.



Duo Checking Account

Experience the ease and earning potentials of a savings account, with the added convenience of issuing checks, along with a Visa Debit Card. Encash your checks at any Sterling Bank of Asia branch near you without any charges — a total hassle-free service right for you!

Time Deposit Series

Prima Time Deposit

Short-term deposits should not equate to short-sighted investments. With Prima Time Deposit, substantial gains at variable terms await the prudent investor.

Prima Dollar Time Deposit

Time is on your side...and with your dollars earning prima interest, it will definitely grow in time.

Maxima 3

Three-year time deposit that gives you great ways to maximize your investment fixed for three years.

Maxima 5

Get rewarded with tax-free earnings on a five-year investment of as low as PHP25,000. Maxima 5 gives you competitive market rates fixed for five years.

Consumer Loans

Ultima Auto Loan

Driving home your own car should always be a rewarding experience. Start with low attractive rates, a long repayment term, and convenient loan processing.

Persona Personal Loan

Because you'll never know when you'll need a little extra — for tuition fees of your children, for your dream vacation, for home improvements, to jumpstart your own business venture, or simply to help you out in a financial emergency. Let Persona address your personal financial needs.

Discovery Home Loan

The key to having your own dream home is to call us! It's that easy. Make your choice and let us handle the rest.

Avance Salary Loan

Probably the best perk for work... unsecured loans made available to qualified employees of accredited companies.

Layag Seafarer's Loan

We know the risks you take in providing for your family. With Layag Seafarer's Loan, you can be sure that your family's financial needs are already taken care of.

Truck Loan

Expand your business logistics with your choice of four- to six-wheeler trucks with Sterling Bank of Asia's truck loan.

Commercial Banking

Business Loans

As your dedicated business partner, we offer a wide range of Business Loans products to answer the demands and requirements of your business for growth or expansion. These various loan products will give you the additional working capital requirements of your business:

- Trade Check Discounting
- Import / Domestic Letter of Credit (LC)
- Trust Receipt (TR)
- Standby Letter of Credit or Bank Guarantee
- Term Loan
- Developmental Loan
- Domestic Bills Purchase

Optima Business Banking Solutions

Optima Business Banking Solutions is a unique business checking account that comes with cash management facilities to help minimize overhead expenses, streamline operations, and most importantly, improve the bottom line.

With Optima, you get to optimize the management of cash and liquid funds. One single account can now take care of the disbursements, collections, and investments of your company's financial resources. Its key facilities are as follows:

- Payroll System
- Payroll Crediting System
- Financial System
- Check Writer System
- PDC Check Warehousing
- Optima Online

Wealth Management

Treasury Services

We offer a range of treasury products and services from sale of fixed income securities (government securities and corporate bonds) to the more sophisticated products to meet your dynamic investment requirements. Managed by a team of dedicated officers, you can be assured that your investment will be handled in a prudent manner.

- Government Securities
 - Treasury Bills
 - Treasury Bonds
 - Retail Treasury Bonds (RTB)
 - Fixed Rate Treasury Notes (FXTNs)
- Peso Corporate Bonds
- USD Sovereign Bonds
- USD Corporate Bonds
- Foreign Exchange

Trust Services

Get customized wealth management services to address different investment needs.

Unit Investment Trust Funds (UITFs)

- Sterling Money Market Fund (Peso)
- Sterling Balanced Fund (Peso)

Personal Wealth Management

- Investment Management Accounts (IMA)
- Personal Management Trust

Corporate Trust

- Employee Benefit Plan
- Investment Management Accounts (IMA)

Auxiliary Trust

- Escrow
- Safekeeping

Sterling Bank Visa Cards

Enjoy the convenience and privileges of shopping and dining without having to worry about your monthly bills. Both powered by Visa and BancNet, our debit and prepaid cards provide an alternative payment method to consumers worldwide. It is the ultimate medium for cashless convenience allowing you to access your funds in several easy and practical methods (online, POS and ATM). Plus, our debit and prepaid cards are the country's first Visa cards to have an embedded EMV chip so you can be sure of more secure transactions whenever, wherever.



Branch Network and Business Offices

Metro Manila

Caloocan – Rizal Avenue

Rizal Ave. Extension,
Between 7th and 8th Ave.,
Grace Park, 1403 Caloocan City
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F: +632 330-7397

Caloocan – MacArthur Highway*

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Calaanan, 1403 Caloocan City
T: +632 426-2892;
426-3707
F: +632 288-4865

Las Piñas

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Pamplona II, 1740 Las Piñas City
T: +632 846-4473;
846-4474
F: +632 846-4317

Makati – Amorsolo

G/F Amorsolo Mansion,
Amorsolo cor. Herrera St.,
Legaspi Village,
1229 Makati City
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519-5764; 519-5772;
519-8158
F: +632 553-0034

Makati – Ayala Ave.

Tower 3, Alphaland Makati
Place, Ayala Ave. Ext.
cor. Malugay St.
1209 Makati City
T: +632 892-1263;
864-0428; 864-0429
F: +632 864-0427

Makati – Gil Puyat

G/F Morning Star Bldg.,
Sen. Gil Puyat Ave.,
1220 Makati City
T: +632 895-5573;
899-2838
F: +632 897-4382

Makati – Leviste

G/F Liroville Condominium,
Leviste cor. Sedeño Sts.,
Salcedo Village,
1227 Makati City
T: +632 846-4168;
555-0942
F: +632 555-0944

Malabon

Francis Market,
Gov. Pascual Ave.
cor. M.H. del Pilar St.,
Tinajeros, 1470 Malabon City
T: +632 351-1007;
351-1006
F: +632 351-1002

Mandaluyong – Shaw Blvd.

G/F Shaw Residenza,
429 Shaw Boulevard,
1550 Mandaluyong City
T: +632 470-9367;
470-9405
F: +632 470-9420

Manila – Divisoria

630 New Divisoria Center
Condominium,
Sta. Elena St., San Nicolas,
Divisoria, 1006 Manila
T: +632 241-0179;
241-0180
F: +632 241-0181

Manila – Masangkay

Unit 963-965,
G/F Masagana Bldg.,
G. Masangkay St.,
Binondo, 1006 Manila
T: +632 243-1342;
243-1832
F: +632 243-1446

Manila – Ongpin

Unit-C, G/F 888 Neo Plaza,
Sabino Padilla cor.
Ongpin Sts.,
Binondo, 1006 Manila
T: +632 736-3113;
736-3208
F: +632 735-8321

Manila – Quintin Paredes

550 Quintin Paredes St.,
Binondo, 1006 Manila
T: +632 247-3841;
247-3992
F: +632 247-3954

Manila – San Fernando (Binondo)

Unit 493-495, G/F VISCO Bldg.,
San Fernando St.,
Binondo, 1006 Manila
T: +632 242-7849;
242-8697
F: +632 243-4144

Manila – U.N. Ave.

G/F Royal Bay Terrace
Condominium,
465 U.N. Ave. cor. Cortado St.,
Ermita, 1000 Manila
T: +632 523-6881;
523-8572
F: +632 523-7656

Marikina

G/F WRC Bldg.,
47 Gil Fernando Ave.,
Midtown Subd. II, San Roque, 1801
Marikina City
T: +632 681-2628;
681-2908
F: +632 681-4327

Muntinlupa – Alabang

G/F Autocentrum BMW Center,
Commerce Ave.
Madrigal Business Park,
Alabang, 1780 Muntinlupa City
T: +632 556-3180;
556-3493
F: +632 556-3492

Parañaque – BF Homes

President's Ave.
cor. Monserrat St.,
BF Homes Subd.,
1700 Parañaque City
T: +632 850-9184;
850-3468
F: +632 850-8959

Parañaque – Ninoy Aquino Ave. (NAIA)

Unit 707-4, G/F Columbia Complex,
P 2B Ninoy Aquino Ave.,
Sto. Niño, 1704 Parañaque City
T: +632 852-0168;
853-9485
F: +632 853-9484

Pasig – Ortigas

G/F Prestige Tower,
F. Ortigas Jr. Road, Ortigas Center,
1605 Pasig City
T: +632 706-3072;
706-3254
F: +632 706-3074

Quezon City – Banawe

705 Banawe St.,
1114 Quezon City
T: +632 781-7625;
781-7650
F: +632 740-8174

Quezon City – Congressional

Unit 31, G/F Barrington Place Bldg.,
Congressional Ave.,
1106 Quezon City
T: +632 928-5168; 929-8748
F: +632 929-9506

Quezon City – Quezon Ave.

G/F Ave Maria Bldg.,
1517 Quezon Ave.
(near cor. Examiner St.),
West Triangle, 1104 Quezon City
T: +632 376-6792; 376-6793
F: +632 376-6794

Quezon City – Timog

G/F SCT Bldg., 25 Timog Ave.,
1103 Quezon City
T: +632 374-0168; 441-8155
F: +632 441-8156

San Juan – Greenhills

G/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
1500 San Juan City
T: +632 727-8752; 726-6418
F: +632 727-8752

Taguig – the Fort BGC, 1st Ave.

Unit-J, G/F Kensington Plaza,
1st Ave. cor. 29th St.,
Crescent Parkwest,
Bonifacio Global City,
1634 Taguig City
T: +632 586-5042; 856-5072
F: +632 856-5036

Taguig – the Fort BGC, 31st St.

McKinley Park Residences,
31st St. cor. 3rd Ave.,
Bonifacio Global City,
1634 Taguig City
T: +632 801-6168, 6172, 6170

Valenzuela

JLB Enterprises Inc. Bldg.,
54 Km.12, MacArthur Highway,
Marulas, 1440 Valenzuela City
T: +632 294-8301; 294-8379
F: +632 294-8466

Provincial

Bacolod

31 Lacson St.,
6100 Bacolod City
T: +6334 432-1381, 432-1490
F: +6334 432-1641

Baguio

1 Leonard Wood Road,
2600 Baguio City
T: +6374 445-2786
F: +6374 445-2788 to 89

Bicol – Legazpi

First CQ Building,
B. Imperial St.,
4500 Legazpi City
T: +6352 284-3906;
284-3910; 284-3904

Bicol – Naga

Centro Square,
#70 Penafrancia Ave.
cor. Colgante Bridge,
San Francisco, 4400 Naga City
T: +6354 871-6168;
871-3770; 880-0545

Boracay

Boracay Tropics,
Balabag, Boracay Island,
Malay, 5608 Aklan
T: +6336 390-2577;
390-2583
F: +6336 390-2028

Cagayan de Oro (CDO)

G/F The VIP Hotel,
A. Velez cor. JR Borja Sts.,
9000 Cagayan de Oro City
T: +6388 852-8168
F: +6388 852-8172

Cavite

A&M Ramos Bldg.,
Aguinaldo Highway,
Bayan Luma IV,
Imus, 4103 Cavite
T: +6346 472-3168;
471-0644 to 45
F: +6346) 474-0081

Cebu – Fuente Osmeña

Gen. Maxilom Ave. cor. F. Ramos
St., 6000 Cebu City
T: +6332 255-3198; 255-6157
F: +6332 254-0087

Cebu – Magallanes

Magallanes cor. Manalili Sts.,
6000 Cebu City
T: +6332 255-1203;
255-7935
F: +6332 256-2659

Dagupan

G/F Lenox Hotel,
Rizal St., Dagupan City,
2400 Pangasinan
T: +6375 523-1168;
522-0491; 522-3168

Davao – J.P. Laurel

J. P. Laurel Ave.,
Bajada, 8000 Davao City
T: +6382 221-7168;
222-0357, 58, 09
F: +6382 222-0196

Davao – Monteverde

Unit 72-74, G/F Sequoia Inn
Bldg., Monteverde St.,
8000 Davao City
T: +6382 222-4140;
224-0542
F: +6382 224-1924

General Santos

J. Catolico Sr. Ave.,
9500 General Santos City
T: +6383 553-5168

Iloilo

G/F GST Iloilo,
Corporate Center Quezon St.,
5000 Iloilo City
T: +6333 338-3795; 338-3797
F: +6333 338-3796

Laguna – Biñan

National Highway,
Brgy. Canlalay,
Biñan, 4024 Laguna
T: (+6349) 307-7595 to 97
F: (+6349) 307-7594

Laguna – Calamba

National Highway,
Brgy. Uno, Crossing,
Calamba, 4027 Laguna
T: +6349 547-7164,
7166, 7168

La Union

Quezon Ave.,
San Fernando City, 2500
La Union
T: +6372 888-0168

Palawan – Puerto Princesa

National Highway,
Brgy. San Pedro,
5300 Puerto Princesa City
T: +6348 244-1476;
244-1497; 244-0660

Pampanga – San Fernando

G/F Queensland Commercial
Plaza, Mc Arthur Highway,
Dolores, San Fernando City,
2000 Pampanga
T: +6345 966-9168;
435-4463; 435-4462

Business Offices

Business Development Unit

G/F Sterling Bank Corporate Center, Ortigas Ave., Greenhills, 1500 San Juan City
T: +632 535-6168

Commercial Lending 1 & 3

1/F Sterling Bank Corporate Center, Ortigas Ave., Greenhills, 1500 San Juan City
T: +632 535-6168

Treasury

3/F Sterling Bank Corporate Center, Ortigas Ave., Greenhills, 1500 San Juan City
T: +632 535-6168

Trust

3/F Sterling Bank Corporate Center, Ortigas Ave., Greenhills, 1500 San Juan City
T: +632 535-6168

Commercial Lending 2

550 Quintin Paredes St., Binondo, 1006 Manila
T: +632 247-0293;
243-0803 to 04

Consumer Lending Offices

Greenhills Head Office

Sterling Bank Corporate Center, Ortigas Ave., Greenhills, 1500 San Juan City

Auto Loans

T: +632 535-6168 locs
2605, 2671, 2674,
2675, 2678, 4022
F: +632 982-9399

Ortigas Lending Center

2/F Prestige Tower, F. Ortigas Jr. Road, Ortigas Center, 1605 Pasig City
F: +632 914-7038; 470-9130

Personal Loan

T: +632 470-8168 locals
2509, 2511, 2522, 2523,
4002

Salary Loan

T: +632 470-8168 locals
2506, 2551, 2553, 2557,
4003

Real Estate Loan

T: +632 470-8168 locals
2498, 2501, 2507, 2512,
2517, 2533, 2593, 4004

Calamba Lending Desk

National Highway Brgy. Uno, Crossing 4027 Calamba, Laguna
T: +6349 547-7164;
+632 535-6168 local
4546

Cavite Lending Desk

A&M Ramos Bldg. Aguinaldo Highway (Bayan Luma IV) Imus, Cavite
T: +6346 472-3168;
+6346 535-6168 local
4542

Pampanga Lending Center

2/F Queensland Commercial Plaza, MacArthur Highway, Dolores, San Fernando City, 2000 Pampanga
T: +6345 280-1561;
280-1554; 280-1564

La Union Lending Desk

Quezon Ave., San Fernando City 2500 La Union
T: +6372 888-0168;
+632 535-6168 local
4548

Dagupan Lending Desk

G/F Lenox Hotel Rizal St., Dagupan City 2400 Pangasinan
T: +6375 523-1168;
+632 535-6168 local
4545

Naga Lending Desk

Centro Square, #70 Penafraancia Ave. cor. Colgante Bridge, San Francisco 4400 Naga City
T: +6354 871-6168;
+632 535-6168 local
4549

Cebu Lending Center

2/F Coast Pacific Bldg. Gen. Maxilom Ave. cor. F. Ramos St., 6000 Cebu City
T: (+6332) 239-0025 to 28,
239-0039, 254-7295
F: (+6332) 254-8291

Bacolod Lending Desk

31 Lacson St. 6100 Bacolod City
T: +6334 432-1641;
+632 535-6168 local
4561

Iloilo Lending Desk

G/F GST Iloilo Corporate Center Quezon St. 5000 Iloilo City
T: +6333 338-3796;
+632 535-6168 local
4560

Cagayan De Oro Lending Desk

G/F The VIP Hotel A. Velez cor. JR Borja Sts. 9000 Cagayan de Oro City
T: +6388 852-8171;
+632 535-6168 local
4581

General Santos Lending Desk

J. Catolico Sr. Ave. 9500 General Santos City
T: +6383 553-5172;
+632 535-6168 local
4583

Davao Lending Center

J.P. Laurel Ave., Bajada 8000 Davao City
T: +6382 222-0357;
+632 535-6168 local
4582

Sterling Bank of Asia extends its commitment to sustainability by using environmentally-friendly paper for the bank's 2017 Annual Report. This Annual Report is published with FSC Certified and ISO 14001 Environmental Certified recycled paper.





Banking to a different beat.

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