

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.

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	₱1,954,304,495	₱1,594,667,588
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		₱176,572,090	₱88,229,667

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	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

		Years Ended December 31	
	Note	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 collectability 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				Total
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	
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 RCOI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

	2016				Total
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	
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 RCOI, 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 Impaired		Total
	High Grade	Standard Grade	Total	Individually Impaired	Individually 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)

2017						
	Neither Past Due nor Impaired			Past Due but not Individually Impaired		Total
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	
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 Individually Impaired		Total
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	
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						
	Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	Total
Loans and discount -						
Consumer lending	₱76,788	₱25,374	₱19,860	₱39,157	₱558,089	₱719,268

2016						
	Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	Total
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)	Fair Value	
			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)	Fair Value	
			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

	2016			
	Carrying Amount	Quoted Prices in Active Market (Level 1)	Fair Value	
Significant Observable Inputs (Level 2)			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		Total
	Corporate Lending	Consumer Lending	
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)

	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

¹Other financial assets pertain to refundable deposits and RCOCI (see Note 14).

²Allowance 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).

³Accrued taxes and other expenses pertain to gross receipt tax (see Note 16).

⁴Other 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	(₱73,449,299)
	-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	₱7,831,330
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
	₱563,776,149

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	₱367,695,612	₱338,836,854
Retirement liability	91,495,563	74,333,068
Accumulated impairment of property and equipment	-	2,667,217
	₱459,191,175	₱415,837,139

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 - ₱10 par value		
Common stock	300,000,000	₱3,000,000,000
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	₱2,070,000,000
Perpetual preferred stock -		
Balance at beginning and end of year	30,000,000	₱300,000,000

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 ₱46.8 million and ₱33.7 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 availments 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	P83,352,809	P81,315,260
Post-employment retirement benefits	3,647,128	4,567,231
	P86,999,937	P85,882,491

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	P6,309,667	P9,467,733
UITF	522,345	483,914
Debt instruments	6,167,637	2,860,200
Equity instruments	316,800	327,000
	P13,316,449	P13,138,847

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 P7.9 billion and P6.1 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 P84.0 million and P62.0 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. 15-2010

Gross 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. 19-2011

Taxable 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			✓