

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of Philippine Bank of Communications (the Group) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017, 2016 and 2015, in accordance with prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Sycip, Gorres, Velayo and Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



ERIC O. RECTO

Chairman of the Board



PATRICIA MAY T. SIY

President and Chief Executive Officer



MANUEL ANDRES D. GOSECO

Treasurer



ARLENE M. DATU

Controller

April 4, 2018



PBCOM

PHILIPPINE BANK OF COMMUNICATIONS
REPUBLIC OF THE PHILIPPINES)
CITY OF CITY OF MAKATI) SS.

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V.A. Rufino St., 1226 Makati City, Philippines
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SUBSCRIBED AND SWORN TO before me this APR 06 2018 at
CITY OF MAKATI, affiants, Eric O. Recto, Patricia May T. Siy, Manuel Andres D.
Goseco and Arlene M. Datu, exhibiting to me their TIN 108-730-891, SSS#0373099955,
SSS# 3330909412 and SSS # 0356633451, respectively.

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ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Until December 31, 2018
IBP No. 656155-Lifetime Member
MCLE Compliance No. V-0004934
Appointment No. M-104 (2017-2018)
PTR No. 6607879 Jan. 3, 2018
Makati City Roll No. 40091
101 Urban Ave. Campos Rueda Bldg.
Brgy. Pio Del Pilar, Makati City

Philippine Bank of Communications and Subsidiaries

Financial Statements
December 31, 2017 and 2016
and Years Ended December 31, 2017, 2016
and 2015

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Bank of Communications

Opinion

We have audited the consolidated financial statements of Philippine Bank of Communications and its subsidiaries (the Group) and the parent company financial statements of Philippine Bank of Communications (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2017 and 2016, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report. We are independent of the Group and the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (the Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated and parent company 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the Audit of the Consolidated and Parent Company Financial Statements

Adequacy of allowance for credit losses on loans and receivables

The Group's and the Parent Company's loans and receivables consist of corporate and consumer loans. The appropriateness of the provision for credit losses on these loans and receivables is a key area of judgment for the management. The Group performs specific impairment testing on individually significant corporate loans. The other loans are grouped based on credit risk characteristics and are subjected to collective impairment testing. The identification of impairment and the determination of the recoverable amount involve various assumptions and factors. These include the financial condition of the counterparty, estimated future cash flows and estimated net selling prices of the collateral. The use of assumptions could produce significantly different estimates of provision for credit losses.

The disclosures relating to the impairment of loans and receivables are included in Notes 3, 5 and 17 to the financial statements.

Audit response

For loans and receivables subjected to specific impairment testing, we selected a sample of impaired loans and obtained an understanding of the borrower's financial condition. We also tested the assumptions underlying the impairment identification and quantification of the provision for credit losses. This was done by assessing whether the forecasted cash flows are based on the borrower's current financial condition, checking the payment history of the borrower, including payments made subsequent to year-end, agreeing the value of the collateral to the appraisal reports, checking whether the discount rates used are based on the original effective interest rate or the last repriced rate, and re-performing the impairment calculation.

For loans and receivables subjected to collective impairment testing, we tested the underlying models and the inputs to those models, such as historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of loss rates and net flow rates to the Group's and the Parent Company's records and subsidiary ledgers, validating the delinquency age buckets of the loans and loan groupings, and re-performing the calculation of provision for credit losses.

Valuation of investment properties

The Group accounts for its investment properties using the fair value model. Investment properties consist of condominium and office units for lease and foreclosed properties. The determination of the fair values of these properties involves significant management judgment in the use of assumptions, such as vacancy and rental rates. The valuation also requires the assistance of external appraisers whose calculations depend on certain assumptions, such as capitalization rates, and sales and listings of comparable properties registered within the vicinity and adjustments to sales price based on internal and external factors. Thus, we considered the valuation of investment properties as a key audit matter.



The disclosures relating to investment properties are included in Notes 4 and 14 to the financial statements.

Audit response

We evaluated the competence, capabilities and qualifications of the external appraisers by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of the investment properties. We assessed the methodology adopted by referencing common valuation models. We evaluated the key assumptions used, such as capitalization, vacancy and rental rates, by comparing the capitalization rates against yield data for comparable properties within the area where the Group's properties are located, vacancy rates against market data and historical vacancy rates for the Group's properties, and rental rates against rental contracts and agreements. We reviewed the relevant information supporting the sales and listings of comparable properties and the adjustments made to the sales price. We also checked the mathematical accuracy of the calculations.

Realizability of deferred tax assets

Deferred tax assets have been recognized to the extent that management has assessed that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. We considered the realizability of deferred tax assets as a key audit matter because the assessment process is complex and judgmental and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group.

The disclosures relating to deferred tax assets are included in Note 30 to the financial statements.

Audit response

We obtained an understanding of the Group's deferred income tax calculation process, including the applicable tax rules and regulations. We reviewed the management's assessment on the availability of future taxable profit in reference to financial forecast and tax strategies. We evaluated the management's forecast by comparing the expected growth rates of the loan and deposit portfolios with that of the industry and the historical performance of the Group. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2017 but does not include the consolidated and parent company financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2017, which are expected to be made available to us after that date.

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

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



If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and parent company 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 Group's and the Parent Company'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 Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

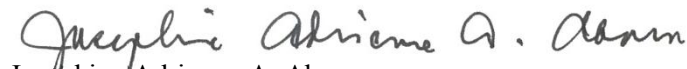


Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Bank of Communications. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Josephine Adrienne A. Abarca.

SYCIP GORRES VELAYO & CO.



Josephine Adrienne A. Abarca
Partner

CPA Certificate No. 92126

SEC Accreditation No. 0466-AR-3 (Group A),

February 9, 2016, valid until February 8, 2019

Tax Identification No. 163-257-145

BIR Accreditation No. 08-001998-61-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621219, January 9, 2018, Makati City

April 4, 2018



PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	As of December 31			
	2017	2016	2017	2016
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items	₱974,207	₱1,042,611	₱941,823	₱1,011,756
Due from Bangko Sentral ng Pilipinas (Notes 18 and 19)	15,340,711	13,356,075	15,279,084	13,276,681
Due from Other Banks	1,166,063	2,996,758	965,820	2,631,497
Interbank Loans Receivable (Note 8)	534,925	310,131	534,925	310,131
Financial Assets at Fair Value through Profit or Loss (Note 9)	2,740,471	300,483	2,740,471	300,483
Equity Securities at Fair Value through Other Comprehensive Income (Note 10)	90,639	52,242	90,639	52,242
Investment Securities at Amortized Cost (Note 11)	15,417,201	13,135,494	15,417,201	13,135,494
Loans and Receivables (Note 12)	53,352,967	46,089,437	51,619,999	44,303,654
Investments in Subsidiaries and an Associate (Note 7)	13,068	12,376	1,058,074	1,023,334
Property and Equipment (Note 13)				
At cost	955,106	1,130,034	900,867	1,066,588
At appraised value	518,482	519,010	470,113	470,113
Investment Properties (Note 14)				
Condominium units for lease	5,365,080	5,044,552	5,365,080	5,044,552
Foreclosed properties	1,020,710	957,000	761,207	721,780
Office units for lease	50,343	23,858	50,343	23,858
Goodwill (Note 15)	182,227	178,456	—	—
Intangible Assets (Note 15)	744,179	781,166	480,433	516,008
Deferred Tax Assets - net (Note 30)	55,928	59,717	—	—
Other Assets (Note 16)	697,943	509,333	683,599	493,863
TOTAL ASSETS	₱99,220,250	₱86,498,733	₱97,359,678	₱84,382,034
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 18 and 31)				
Demand	₱19,400,193	₱15,464,230	₱19,480,422	₱15,571,988
Savings	8,329,526	6,943,767	7,790,785	6,400,070
Time	43,006,098	40,737,984	41,773,807	39,227,043
	70,735,817	63,145,981	69,045,014	61,199,101
Bills Payable (Note 19)	12,567,399	10,099,384	12,567,399	10,099,384
Outstanding Acceptances	64,085	34,357	64,085	34,357
Manager's Checks	427,405	300,385	427,405	300,385
Accrued Interest, Taxes and Other Expenses (Note 20)	421,666	414,575	391,771	382,452
Income Tax Payable	13,458	240	14,945	182
Deferred Tax Liabilities - net (Note 30)	1,228,855	1,105,523	1,100,902	974,865
Other Liabilities (Note 21)	831,201	616,552	808,429	601,293
TOTAL LIABILITIES	86,289,886	75,716,997	84,419,950	73,592,019

(Forward)



	Consolidated	Parent Company		
	As of December 31			
	2017	2016	2017	2016
	(Amounts in Thousands)			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common stock (Note 23)	₱12,016,129	₱7,489,114	₱12,016,129	₱7,489,114
Subscribed common stock - net (Note 23)	—	4,581,340	—	4,581,340
Additional paid-in capital	2,252,826	813,515	2,262,246	813,601
Surplus reserves (Note 23)	105,824	105,772	105,824	105,772
Deficit (Note 23)	(1,626,290)	(2,345,243)	(1,626,290)	(2,345,243)
Unrealized gain on equity securities carried at fair value through other comprehensive income (Note 10)	64,104	33,621	64,104	33,621
Revaluation increment on land, office units and condominium properties (Notes 13 and 14)	301,846	280,228	301,846	280,228
Cumulative translation adjustment	(122,263)	(72,739)	(122,263)	(72,739)
Remeasurement losses on retirement liability (Note 27)	(61,868)	(95,679)	(61,868)	(95,679)
	12,930,308	10,789,929	12,939,728	10,790,015
NON-CONTROLLING INTERESTS	56	(8,193)	—	—
TOTAL EQUITY	12,930,364	10,781,736	12,939,728	10,790,015
TOTAL LIABILITIES AND EQUITY	₱99,220,250	₱86,498,733	₱97,359,678	₱84,382,034

See accompanying Notes to Financial Statements.



PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands, Except Earnings per Share)					
INTEREST INCOME						
Loans and receivables (Notes 12 and 31)	₱3,215,921	₱2,902,068	₱2,597,337	₱2,921,310	₱2,539,901	₱2,299,675
Investment securities (Note 26)	690,658	676,016	628,963	690,658	676,016	628,963
Interbank loans receivable and securities purchased under resale agreements (Note 8)	38,905	19,073	11,431	38,905	19,073	19,033
Deposits with other banks	15,826	37,583	61,835	12,739	37,202	61,296
	3,961,310	3,634,740	3,299,566	3,663,612	3,272,192	3,008,967
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 18 and 31)	834,585	861,401	869,926	773,574	799,652	825,398
Bills payable, borrowings and others (Note 19)	225,167	177,385	103,672	225,029	176,704	99,321
	1,059,752	1,038,786	973,598	998,603	976,356	924,719
NET INTEREST INCOME	2,901,558	2,595,954	2,325,968	2,665,009	2,295,836	2,084,248
Rent income (Notes 14, 28 and 31)	563,259	474,213	404,072	563,245	474,105	403,948
Service charges, fees and commissions	362,842	363,635	426,556	317,721	326,484	377,997
Fair value gain from investment properties (Note 14)	353,992	286,404	941,728	336,859	252,095	929,751
Foreign exchange gain - net	69,787	11,474	10,200	69,787	11,474	10,200
Income from trust operations (Note 25)	15,404	16,864	18,300	15,404	16,864	18,300
Trading and securities gain (loss) - net (Note 26)	(13,243)	48,339	(40,465)	(13,243)	48,339	(40,465)
Profit (loss) from assets sold (Notes 13, 14 and 16)	11,953	(7,316)	5,335	3,464	(7,915)	4,608
Gain (loss) on assets exchange - net (Note 14)	5,487	12,170	3,702	(81)	12,170	(215)
Gain on reclassification of investment securities from amortized cost to fair value through profit or loss (Note 11)	—	198,700	—	—	198,700	—
Gain on disposal of investment securities at amortized cost (Note 11)	—	—	48,174	—	—	48,174
Miscellaneous	121,066	51,071	90,827	103,478	39,061	30,355
TOTAL OPERATING INCOME	4,392,105	4,051,508	4,234,397	4,061,643	3,667,213	3,866,901

(Forward)



	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands, Except Earnings per Share)					
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 14, 27 and 31)	₱1,162,952	₱1,181,173	₱1,344,158	₱1,055,169	₱1,074,104	₱1,240,970
Taxes and licenses (Notes 14 and 30)	457,442	406,471	435,777	427,136	377,609	409,648
Provision for credit and impairment losses - net (Note 17)	338,495	477,968	443,802	288,811	396,223	391,493
Depreciation and amortization (Note 13)	326,915	345,578	290,531	307,134	324,496	270,192
Occupancy and other equipment-related costs (Notes 14, 28 and 31)	224,351	184,412	217,691	210,864	173,159	202,716
Insurance	131,050	126,452	128,052	124,391	119,230	122,735
Management and professional fees	108,090	150,628	162,627	103,161	147,839	158,643
Security, clerical, messengerial and janitorial services	94,006	84,980	99,563	81,549	75,177	91,548
Entertainment, amusement and recreation	82,364	77,515	62,879	81,981	77,198	62,715
Communications	55,852	58,180	67,378	53,595	56,303	60,889
Miscellaneous (Notes 14 and 29)	369,939	323,713	292,389	331,953	289,543	267,105
TOTAL OPERATING EXPENSES	3,351,456	3,417,070	3,544,847	3,065,744	3,110,881	3,278,654
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND AN ASSOCIATE	1,040,649	634,438	689,550	995,899	556,332	588,247
SHARE IN NET INCOME OF SUBSIDIARIES (Note 7)	—	—	—	27,214	49,683	70,747
SHARE IN NET INCOME OF AN ASSOCIATE (Note 7)	692	263	468	692	263	468
INCOME BEFORE INCOME TAX	1,041,341	634,701	690,018	1,023,805	606,278	659,462
PROVISION FOR INCOME TAX (Note 30)	322,639	234,821	486,336	305,106	206,226	456,161
NET INCOME	₱718,702	₱399,880	₱203,682	₱718,699	₱400,052	₱203,301
Attributable to:						
Equity holders of the Parent Company	₱718,699	₱400,052	₱203,301			
Non-controlling interests	3	(172)	381			
	₱718,702	₱399,880	₱203,682			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	₱2.00	₱1.34	₱0.68			

See accompanying Notes to Financial Statements.



PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	₱718,702	₱399,880	₱203,682	₱718,699	₱400,052	₱203,301
OTHER COMPREHENSIVE INCOME (LOSS)						
FOR THE YEAR, NET OF TAX						
Item that may be reclassified to profit or loss in subsequent periods:						
Net movement in cumulative translation adjustment	(49,524)	(20,345)	(25,002)	(49,524)	(20,345)	(25,002)
Items that may not be reclassified to profit or loss in subsequent periods:						
Unrealized gain on equity securities carried at fair value through other comprehensive income (Note 10)	38,397	7,790	1,477	38,397	7,790	1,477
Change in remeasurement gains on retirement liability (Note 27)	34,587	76,561	98,235	31,424	77,695	99,780
Net movement in revaluation increment on land, office units and condominium properties (Notes 13 and 14)	31,320	—	46,450	31,320	—	45,285
Income tax relating to components of other comprehensive income	(18,086)	437	(13,619)	(17,310)	—	(13,586)
	86,218	84,788	132,543	83,831	85,485	132,956
	36,694	64,443	107,541	34,307	65,140	107,954
TOTAL OTHER COMPREHENSIVE INCOME BEFORE SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIES	755,396	464,323	311,223	753,006	465,192	311,255
SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIES						
Items that may not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement losses (gains) on retirement liability (Note 7)	—	—	—	3,162	(1,146)	(1,526)
Net movement in revaluation increment on land, office units and condominium properties (Note 7)	—	—	—	—	—	1,123
Income tax relating to components of other comprehensive income (Note 7)	—	—	—	(775)	437	(21)
TOTAL OTHER COMPREHENSIVE INCOME	₱755,396	₱464,323	₱311,223	₱755,393	₱464,483	₱310,831
Attributable to:						
Equity holders of the Parent Company	₱755,393	₱464,483	₱310,831			
Non-controlling interests	3	(160)	392			
TOTAL COMPREHENSIVE INCOME, NET OF TAX	₱755,396	₱464,323	₱311,223			

See accompanying Notes to Financial Statements.



PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

Consolidated												
Years Ended December 31, 2017, 2016 and 2015												
Equity Attributable to Equity Holders of the Parent Company												
	Common Stock (Note 23)	Subscribed Common Stock - net (Note 23)	Additional Paid-in Capital	Surplus Reserves (Note 23)	Deficit (Note 23)	Unrealized Gain on Equity Securities at Fair Value Through Other Comprehensive Income (Note 10)	Revaluation Increment on Land, Office Units and Condominium Properties (Notes 13 and 14)	Cumulative Translation Adjustment	Remeasurement Losses on Retirement Liability (Note 27)	Total	Non- Controlling Interests	Total Equity
(Amounts in Thousands)												
Balances at January 1, 2017	₱7,489,114	₱4,581,340	₱813,515	₱105,772	(₱2,345,243)	₱33,621	₱280,228	(₱72,739)	(₱95,679)	₱10,789,929	(₱8,193)	₱10,781,736
Collection of subscription receivable (Note 23)	—	1,394,320	—	—	—	—	—	—	—	1,394,320	—	1,394,320
Issuance of common stock (Note 23)	4,527,015	(5,975,660)	1,448,645	—	—	—	—	—	—	—	—	—
Amortization of revaluation surplus (Note 13)	—	—	—	—	306	—	(306)	—	—	—	—	—
Transfer to surplus reserves	—	—	—	52	(52)	—	—	—	—	—	—	—
Total comprehensive income (loss) for the year	—	—	—	—	718,699	30,483	21,924	(49,524)	33,811	755,393	3	755,396
Acquisition of non-controlling interests (Note 7)	—	—	(9,334)	—	—	—	—	—	—	(9,334)	8,246	(1,088)
Balances at December 31, 2017	₱12,016,129	₱—	₱2,252,826	₱105,824	(₱1,626,290)	₱64,104	₱301,846	(₱122,263)	(₱61,868)	₱12,930,308	₱56	₱12,930,364
Balances at January 1, 2016	₱7,489,114	₱3,187,019	₱813,601	₱105,772	(₱2,745,295)	₱25,831	₱280,228	(₱52,394)	(₱172,665)	₱8,931,211	(₱7,188)	₱8,924,023
Collection of subscription receivable (Note 23)	—	1,394,321	—	—	—	—	—	—	—	1,394,321	—	1,394,321
Total comprehensive income (loss) for the year	—	—	—	—	400,052	7,790	—	(20,345)	76,986	464,483	(160)	464,323
Acquisition of non-controlling interests (Note 7)	—	—	(86)	—	—	—	—	—	—	(86)	(858)	(944)
Deposit for future stock subscription	—	—	—	—	—	—	—	—	—	—	13	13
Balances at December 31, 2016	₱7,489,114	₱4,581,340	₱813,515	₱105,772	(₱2,345,243)	₱33,621	₱280,228	(₱72,739)	(₱95,679)	₱10,789,929	(₱8,193)	₱10,781,736
Balances at January 1, 2015	₱7,489,114	₱1,792,698	₱813,601	₱105,772	(₱2,948,596)	₱24,354	₱247,743	(₱27,392)	(₱271,235)	₱7,226,059	(₱7,580)	₱7,218,479
Collection of subscription receivable (Note 23)	—	1,394,321	—	—	—	—	—	—	—	1,394,321	—	1,394,321
Total comprehensive income (loss) for the year	—	—	—	—	203,301	1,477	32,485	(25,002)	98,570	310,831	392	311,223
Balances at December 31, 2015	₱7,489,114	₱3,187,019	₱813,601	₱105,772	(₱2,745,295)	₱25,831	₱280,228	(₱52,394)	(₱172,665)	₱8,931,211	(₱7,188)	₱8,924,023

See accompanying Notes to Financial Statements.



Parent Company										
Years Ended December 31, 2017, 2016 and 2015										
	Common Stock (Note 23)	Subscribed Common Stock - net (Note 23)	Additional Paid-in Capital	Surplus Reserves (Note 23)	Deficit (Note 23)	Unrealized Gain on Equity Securities at Fair Value Through Other Comprehensive Income (Note 10)	Revaluation Increment on Land, Office Units and Condominium Properties (Notes 13 and 14)	Cumulative Translation Adjustment	Remeasurement Losses on Retirement Liability (Note 27)	Total Equity
(Amounts in Thousands)										
Balances at January 1, 2017	₱7,489,114	₱4,581,340	₱813,601	₱105,772	(₱2,345,243)	₱33,621	₱280,228	(₱72,739)	(₱95,679)	₱10,790,015
Collection of subscription receivable (Note 23)	—	1,394,320	—	—	—	—	—	—	—	1,394,320
Issuance of common stock (Note 23)	4,527,015	(5,975,660)	1,448,645	—	—	—	—	—	—	—
Amortization of revaluation surplus (Note 13)	—	—	—	—	306	—	(306)	—	—	—
Transfer of surplus reserves	—	—	—	52	(52)	—	—	—	—	—
Total comprehensive income (loss) for the year	—	—	—	—	718,699	30,483	21,924	(49,524)	33,811	755,393
Balances at December 31, 2017	₱12,016,129	₱—	₱2,262,246	₱105,824	(₱1,626,290)	₱64,104	₱301,846	(₱122,263)	(₱61,868)	₱12,939,728
Balances at January 1, 2016	₱7,489,114	₱3,187,019	₱813,601	₱105,772	(₱2,745,295)	₱25,831	₱280,228	(₱52,394)	(₱172,665)	₱8,931,211
Collection of subscription receivable (Note 23)	—	1,394,321	—	—	—	—	—	—	—	1,394,321
Total comprehensive income (loss) for the year	—	—	—	—	400,052	7,790	—	(20,345)	76,986	464,483
Balances at December 31, 2016	₱7,489,114	₱4,581,340	₱813,601	₱105,772	(₱2,345,243)	₱33,621	₱280,228	(₱72,739)	(₱95,679)	₱10,790,015
Balances at January 1, 2015	₱7,489,114	₱1,792,698	₱813,601	₱105,772	(₱2,948,596)	₱24,354	₱247,743	(₱27,392)	(₱271,235)	₱7,226,059
Collection of subscription receivable (Note 23)	—	1,394,321	—	—	—	—	—	—	—	1,394,321
Total comprehensive income (loss) for the year	—	—	—	—	203,301	1,477	32,485	(25,002)	98,570	310,831
Balances at December 31, 2015	₱7,489,114	₱3,187,019	₱813,601	₱105,772	(₱2,745,295)	₱25,831	₱280,228	(₱52,394)	(₱172,665)	₱8,931,211

See accompanying Notes to Financial Statements.



PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱1,041,341	₱634,701	₱690,018	₱1,023,805	₱606,278	₱659,462
Adjustments to reconcile income before income tax to net cash generated from (used for) operations:						
Fair value gain on investment properties (Note 14)	(353,992)	(286,404)	(941,728)	(336,859)	(252,095)	(929,751)
Provision for credit and impairment losses (Note 17)	338,495	477,968	443,802	288,811	396,223	391,493
Depreciation and amortization (Notes 13 and 15)	326,915	345,578	290,531	307,134	324,496	270,192
Accretion of interest on unquoted debt securities (Note 12)	(93,478)	(180,520)	(182,628)	(93,478)	(180,520)	(182,628)
Loss (profit) from assets sold (Note 14)	(11,953)	7,316	(5,335)	(3,464)	7,915	(4,608)
Unrealized loss (gain) on financial assets at fair value through profit or loss (Note 26)	13,243	(48,339)	3,136	13,243	(48,339)	3,136
Share in net income of subsidiaries and an associate (Note 7)	(692)	(263)	(468)	(27,906)	(49,946)	(71,215)
Loss (gain) on assets exchanged (Note 14)	(5,487)	(12,170)	(3,702)	81	(12,170)	215
Gain on reclassification of investment securities from amortized cost to fair value through profit or loss (Note 11)	—	(198,700)	—	—	(198,700)	—
Gain from sale of investment securities at amortized cost (Note 11)	—	—	(48,174)	—	—	(48,174)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Loans and receivables (Note 33)	(7,588,626)	(9,969,993)	(3,314,110)	(7,779,135)	(9,970,103)	(2,608,543)
Financial assets at fair value through profit or loss	(2,453,231)	341,813	285,825	(2,453,231)	341,813	285,825
Other assets	(269,860)	114,830	(14,474)	(103,830)	118,625	(6,328)
Increase (decrease) in the amounts of:						
Deposit liabilities	7,565,179	4,843,628	(817,263)	7,845,913	4,643,587	(1,202,221)
Manager’s checks	127,020	191,472	(102,216)	127,020	191,472	(102,216)
Accrued interest, taxes and other expenses	4,949	(124,610)	5,012	40,744	(118,962)	(20,258)
Other liabilities	247,450	79,219	77,854	207,384	73,911	105,389
Net cash used for operations	(1,112,727)	(3,784,474)	(3,633,920)	(943,768)	(4,126,515)	(3,460,230)
Income taxes paid	(197,870)	(192,375)	(207,496)	(181,617)	(152,818)	(178,770)
Net cash used in operating activities	(1,310,597)	(3,976,849)	(3,841,416)	(1,125,385)	(4,279,333)	(3,639,000)
CASH FLOWS FROM INVESTING ACTIVITIES						
Decrease (increase) in interbank loans receivable	(12,693)	(49,720)	89,440	(12,693)	(49,720)	89,440
Acquisitions of:						
Investment securities at amortized cost	(2,351,707)	(2,264,061)	(2,009,366)	(2,351,707)	(2,264,061)	(2,009,366)
Property and equipment (Note 13)	(53,644)	(146,030)	(146,276)	(46,067)	(136,227)	(136,840)
Software costs (Note 15)	(30,358)	(32,984)	(56,435)	(30,358)	(32,140)	(56,435)
Investment properties (Notes 13 and 14)	(6,743)	(30,005)	(8,632)	(6,743)	(30,005)	(8,632)
Subsidiaries (Note 7)	3,069	—	—	—	—	—
Additional investments in subsidiaries (Note 7)	(1,088)	—	—	—	(45,942)	—

(Forward)



	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands)					
Proceeds from disposals of:						
Investment securities	₱–	₱–	₱845,460	₱–	₱–	₱845,460
Investment properties (Note 14)	47,896	48,837	25,184	43,103	50,323	19,064
Property and equipment (Note 13)	15,861	24,272	49,402	11,102	24,272	49,399
Chattel mortgage	85,349	11,839	16,076	85,349	11,839	16,076
Proceeds from maturity of investment securities	70,000	3,596,957	–	70,000	3,596,957	–
Net cash provided by (used in) investing activities	(2,234,058)	1,159,105	(1,195,147)	(2,238,014)	1,125,296	(1,191,834)
CASH FLOWS FROM FINANCING ACTIVITIES						
Availments of:						
Bills payable	190,375,643	103,725,503	39,069,117	190,375,643	103,725,500	38,783,769
Outstanding acceptances	324,197	405,111	567,502	324,197	405,111	567,502
Marginal deposits	3,410	37,683	37,913	3,410	37,683	37,913
Settlements of:						
Bills payable	(187,907,410)	(100,107,738)	(36,012,924)	(187,907,410)	(99,922,984)	(35,908,558)
Outstanding acceptances	(295,302)	(412,820)	(551,056)	(295,302)	(412,820)	(551,056)
Marginal deposits	(3,040)	(39,033)	(36,401)	(3,040)	(39,033)	(36,401)
Proceeds from shares subscription (Note 23)	1,394,320	1,394,321	1,394,321	1,394,320	1,394,321	1,394,321
Net cash provided by (used in) financing activities	3,891,818	5,003,027	4,468,472	3,891,818	5,187,778	4,287,490
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT						
	(49,524)	(20,345)	(25,002)	(49,524)	(20,345)	(25,002)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	297,639	2,164,938	(593,093)	478,895	2,013,396	(568,346)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	1,042,611	1,343,340	1,181,592	1,011,756	1,311,615	1,153,418
Due from Bangko Sentral ng Pilipinas	13,356,075	11,909,774	12,522,613	13,276,681	11,839,461	12,463,067
Due from other banks	2,996,758	2,008,522	1,636,641	2,631,497	1,786,592	1,375,646
Interbank loans receivable (Note 33)	260,411	229,281	743,164	260,411	229,281	743,164
	17,655,855	15,490,917	16,084,010	17,180,345	15,166,949	15,735,295
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	974,207	1,042,611	1,343,340	941,823	1,011,756	1,311,615
Due from Bangko Sentral ng Pilipinas	15,340,711	13,356,075	11,909,774	15,279,084	13,276,681	11,839,461
Due from other banks	1,166,063	2,996,758	2,008,522	965,820	2,631,497	1,786,592
Interbank loans receivable (Note 33)	472,513	260,411	229,281	472,513	260,411	229,281
	₱17,953,494	₱17,655,855	₱15,490,917	₱17,659,240	₱17,180,345	₱15,166,949
OPERATIONAL CASH FLOWS FROM INTEREST						
	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands)					
Interest paid	₱1,040,615	₱1,061,279	₱974,872	₱973,150	₱996,632	₱932,702
Interest received	3,851,860	3,554,941	3,131,233	3,485,682	3,352,973	2,799,462

See accompanying Notes to Financial Statements.



PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Bank of Communications (the Parent Company) is a publicly listed domestic commercial bank organized in the Philippines, primarily to engage in commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services through a network of 85 local branches. The Parent Company's principal place of business is at the PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City.

The Parent Company's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on August 23, 1939. On June 21, 1988, the Board of Directors (BOD) of the Parent Company approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Parent Company for another 50 years or up to August 23, 2039. The Amended Articles of Incorporation was approved by the SEC on November 23, 1988.

The Parent Company acquired a license to operate as an expanded commercial bank from the Bangko Sentral ng Pilipinas (BSP) on December 24, 1993. On March 31, 2000, the BSP's Monetary Board approved the amendment of the Parent Company's license to a regular commercial banking.

The Parent Company's subsidiaries and an associate (collectively referred to as the Group) are engaged in the following businesses:

Entity	Effective Percentage of Ownership		Principal Place of Business and Country of Incorporation	Line of Business
	2017	2016		
Subsidiaries				
Banco Dipolog, Inc. A Rural Bank (BDI)	99.99%	99.99%	Philippines	Rural Bank
Rural Bank of Nagcarlan, Inc. (RBNI)	—*	96.32%	Philippines	Rural Bank
PBCom Insurance Services Agency, Inc. (PISAI)	100.00%	100.00%	Philippines	Insurance Agent
Associate				
PBCom Finance Corporation (PBCom Finance)	40.00%	40.00%	Philippines	Financing Company

* On December 11, 2017, the SEC approved the merger of BDI, RBNI and Rural Bank of Kabasalan, Inc. (RBKI), with BDI as the surviving entity (see Note 7).

Rehabilitation Plan

Pursuant to the Financial Recovery and Rehabilitation Plan, which was approved by the BSP on March 25, 2004, the Parent Company implemented the Financial Assistance Agreement (FAA) it entered into with the Philippine Deposit Insurance Corporation (PDIC). Salient provisions included were: (a) fresh capital infusion from the existing major stockholders amounting to ₱3.00 billion; (b) sale of nonperforming assets (NPAs) via special purpose vehicle (SPV); and (3) direct loan from the PDIC amounting to ₱7.64 billion payable at the end of the 10th year with interest rate of 1.00% per annum, provided that any income in excess of 85% of actual loss shall inure in favor of PDIC.

Financial assistance

On March 26, 2004, the major stockholders infused ₱3.00 billion fresh capital to the Parent Company pending the SEC's approval on the increase of authorized capital stock from ₱14.50 billion to ₱17.50 billion and the issuance of new preferred shares. The SEC approved the amendments on April 1, 2006.



The sale of nonperforming assets to the SPV resulted to an actual loss (SPV losses) of ₱10.77 billion. The loss was the difference between the net book value of the NPAs and the proceeds of the sale. Availing the provisions of Republic Act (RA) No. 9128, *The Special Purpose Vehicle Act of 2002*, the Parent Company was allowed to defer or to amortize the SPV losses in the statement of income over ten years.

The proceeds from the ₱7.64 billion PDIC loan were used to purchase government securities (GS Collateral). The GS Collateral was pledged to the PDIC to secure the loan obligation. The 12.375% interest income, net of all taxes and the 1% interest expense on the loan, was PDIC's income support to the Parent Company. In 2011, the Parent Company requested the substitution of the GS Collateral with other obligation of the Republic of the Philippines and/or other acceptable risk-free instruments. With the prevailing favorable market conditions then, the GS Collateral provided a key opportunity for the Parent Company to counteract the income support deficiency amidst the full recognition of the SPV losses. The substitution was approved on January 5, 2012 and the substitution process was completed on December 31, 2013.

As of December 31, 2013, the total income support received by the Parent Company under the agreement was ₱6.14 billion, which was below the 85.00% of the actual losses incurred from the sale of NPAs. On March 26, 2014, the Parent Company exited the ten-year FAA with the settlement of the ₱7.64 billion matured PDIC loan.

Strategic third party investors

On July 26, 2011, pursuant to the FAA, the major shareholders of the Parent Company, namely the Chung, Luy, and Nubla Groups, signed a Memorandum of Agreement (MOA) with ISM Communications Corporation (the ISM Group), for the sale of their entire stake in the Parent Company to the ISM Group and the commitment of the Chung and Nubla groups to reinvest the proceeds of the sale of their respective shares with total amount of ₱2.80 billion in the Parent Company.

On October 31, 2011, the Monetary Board approved the ISM Group's acquisition of the controlling interest in the Parent Company.

On December 23, 2011, the ISM Group's acquisition of the Parent Company was successfully completed through the Philippine Stock Exchange (PSE) via a special block sale.

On August 5, 2014, the Parent Company signed a subscription agreement with P.G. Holdings Inc. (PGH), for the latter's subscription of the Parent Company's 181,080,608 common shares valued at ₱33.00 per share. These shares will be issued out of the unissued portion of the Parent Company's authorized capital stock. On August 6, 2014, in compliance with banking law and regulations, the Parent Company and PGH submitted the Subscription Agreement to the BSP for its approval.

The subscription by PGH to the new shares of the Parent Company amounting to ₱5.98 billion was approved by the BSP on September 23, 2014. The first installment of ₱1.79 billion was paid by PGH on September 25, 2014. Subsequently, on October 1, 2014, VFC Land Resources Inc. (VFC) bought 59.24 million shares at ₱33.00 per share from the ISM Group. PGH and VFC are owned by Mr. Lucio Co, bringing his total stake in the Parent Company to 49.99%.

On September 22, 2015, June 29, 2016 and September 11, 2017, the Parent Company received the second, third and final installment payments, respectively, each amounting to ₱1.39 billion for the subscribed shares of PGH (see Note 23).



BSP Approvals

The BSP, in its Resolution No. 2088 dated December 14, 2012, approved the request of the Parent Company to book ₱1.92 billion revaluation increment resulting from the revaluation of PBCom Tower. This allowed the Parent Company to include the revaluation increment as part of unimpaired and qualifying capital in computing for net worth and capital adequacy ratio. Out of the ₱1.92 billion, ₱1.57 billion was included in the carrying value of condominium units for lease included under 'Investment properties'. Deferred tax liability recognized and charged to the statement of income from the revaluation increment amounted to ₱470.95 million. The remaining balance of ₱359.29 million on condominium units included under 'Property and equipment' was not recognized in the financial statements because the Parent Company's accounting policy for property and equipment, except land, is to carry these assets at cost.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Presentation

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), equity securities at fair value through other comprehensive income (FVTOCI) and investment properties that are measured at fair value, and land classified as 'Property and equipment' that is measured at appraised value. The financial statements are presented in Philippine peso (PHP or ₱) and all values are rounded to the nearest thousand, unless otherwise stated.

The financial statements of the Parent Company include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the PHP and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP, which is the Parent Company's presentation currency (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts and transactions.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Parent Company's subsidiaries is the PHP.

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The Group and the Parent Company present its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 22.



Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company using consistent accounting policies. Subsidiaries are consolidated from the date on which control is transferred to the Parent Company. The Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual agreements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Parent Company's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for within equity as reduction to 'Additional paid-in capital'. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs, which results in loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related OCI recorded in equity and recycle the same to the statement of income or surplus;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained; and
- Recognizes any surplus or deficit in the statement of income.



Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. The adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows, Disclosure Initiative*
The additional disclosure required by PAS 7 amendments is presented in Note 33. As allowed under the transitional provisions of the standard, the Group and the Parent Company did not present comparative information for the years ended December 31, 2016 and 2015.
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Foreign Currency Translation

RBU

As of the statement of financial position date, foreign currency-denominated monetary assets and monetary liabilities of the RBU are translated into PHP based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year and foreign currency-denominated income and expenses, based on the spot rate at date of transactions. Foreign exchange differences arising from the restatement of foreign currency-denominated monetary assets and liabilities in the RBU are credited to or charged against the statement of income in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As of the statement of financial position date, the FCDU's assets and liabilities are translated into PHP, the Parent Company's presentation currency, at the PDS closing rate prevailing at the statement of financial position date, and income and expenses are translated at PDS weighted average rate for the year. Exchange differences arising on translation are taken directly to the statement of comprehensive income as 'Cumulative translation adjustment'. Upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.



Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

External valuers are involved for the valuation of investment properties. Selection criteria include market knowledge, reputation, independence, relevant accreditation, and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability, and fair value hierarchy as explained above.



Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Group considers as cash equivalents since withdrawals can be made to meet the Group's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Securities Purchased under Resale Agreements (SPURA)

The Group enters into short-term purchases of securities under resale agreements of identical securities with the BSP. Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a fixed price. The amounts advanced under resale agreements are carried as SPURA in the statement of financial position. SPURA are carried at cost. Interest earned on resale agreements is reported as 'Interest income' in the statement of income.

Financial Instruments - Date of Recognition

The Group recognizes financial instruments when, and only when, it becomes a party to the contractual terms of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to:

- a. The recognition of an asset on the day it is received by the Group; and
- b. The derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Group.

Any change in fair value of unrecognized financial asset is recognized in the statement of income or in equity, depending on the classification of the financial asset. Loans and receivables are recognized when cash is advanced to the borrowers while financial liabilities are recognized when cash is received by the Group.

Classification, Measurement and Reclassification of Financial Assets

Classification and measurement of financial assets

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*). All other non-derivative financial instruments are 'debt instruments'.

a. Financial Assets at Amortized Cost

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

- The asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses, with the interest calculated recognized as 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such assets are recognized in the statement of income under



‘Provision for credit and impairment losses - net’. The effects of restatement on foreign currency-denominated financial assets at amortized cost are recognized in the statement of income.

The Group classified ‘Cash and other cash items’, ‘Due from BSP’, ‘Due from other banks’, ‘Interbank loans receivable’, ‘Loans and receivables’, ‘Investment securities at amortized cost’ and certain assets under ‘Other assets’ as financial assets at amortized cost.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As of December 31, 2017 and 2016, the Group has not made such designation.

b. Financial Assets at FVTOCI

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

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in OCI and accumulated in ‘Unrealized gain on equity securities carried at fair value through other comprehensive income’ in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in ‘Unrealized gain on equity securities carried at fair value through other comprehensive income’ is not reclassified to statement of income, but is reclassified to ‘Deficit’.

The Group has designated certain equity instruments that are not held for trading as at FVTOCI on initial application of PFRS 9 (see Note 10).

Dividends earned on these investments in equity instruments are recognized in the statement of income when the Group’s right to receive the dividends is established in accordance with PAS 18, *Revenue*, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income, under ‘Miscellaneous income’.

c. Financial Assets at FVTPL

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

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



The Group's financial assets at FVTPL include government securities and private bonds held for trading purposes.

As of December 31, 2017 and 2016, the Group has not designated any debt instrument that meets the amortized cost criteria as at FVTPL.

Financial assets at FVTPL are carried at fair value, and realized and unrealized gains and losses on these instruments are recognized as 'Trading and securities gain (loss) - net' in the statement of income. Interest earned on these investments is reported as 'Interest income' in the statement of income.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the PDS closing rate at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss. For financial assets classified as at FVTPL, the foreign exchange component is recognized in the statement of income. For financial assets designated as at FVTOCI, any foreign exchange component is recognized in OCI.

d. Derivative Instruments

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

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

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

Reclassification of financial assets

The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify as follows:

- From amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- From FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows are solely payments of principal and interest on the principal outstanding.

Reclassification of financial assets designated as at FVTPL at initial recognition is not permitted. A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next statement of financial position date following the change in the business model.

Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is



objective evidence as a result of one or more events that had occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost

The Group 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.

For individually assessed financial assets, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (EIR). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is probable or continues to be recognized are not included in a collective assessment of impairment.

In addition to impairment assessment against individually significant financial assets, the Group also makes a collective impairment assessment against exposures, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally planned. The assets are grouped based on credit risk characteristics and are subjected to collective impairment assessment. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience which 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, for assets with credit risk characteristics similar to those in the group. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the financial asset at amortized cost is reduced by the impairment loss (included under 'Provision for credit and impairment losses - net' in the statement of income) directly for all financial assets at amortized cost with the exception of 'Loans and receivables', where the carrying amount is reduced through the use of an allowance account. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collaterals have been realized. The amount of impairment loss is recognized under 'Provision for credit and impairment losses - net' in the statement of income. Interest income



continues to be recognized based on the original EIR of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of income to the extent that the carrying amount of the financial asset at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Restructured loans

Where possible, the Group 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 loan continues to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit and impairment losses - net' in the statement of income.

Classification and Measurement of Financial Liabilities

Financial liabilities are classified, at initial recognition, either as financial liabilities at FVTPL or other financial liabilities at amortized cost.

Financial liabilities at amortized cost

These liabilities are classified as such when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

These financial liabilities are measured initially at fair value, net of directly attributable transaction costs. After initial measurement, these liabilities are subsequently measured at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy relates to the statement of financial position caption 'Deposit liabilities', 'Bills payable', 'Outstanding acceptances', 'Manager's checks', and certain liabilities under 'Accrued interest, taxes and other expenses' and 'Other liabilities' which are not designated at FVTPL.

Derecognition of Financial Assets and Financial Liabilities

Financial asset

A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized (that is, removed from the statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either the Group:
 - a. Has transferred substantially all the risks and rewards of the asset; or



- b. Has neither transferred nor retained the risks and rewards of the asset, but has transferred the control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When 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 the derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the statement of income.

Repurchase and reverse repurchase agreements

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Investments in Subsidiaries and an Associate in the Parent Company Financial Statements

Subsidiaries

A subsidiary is an entity in which the Parent Company holds more than half of the issued share capital or controls more than 50% of the voting power, or exercises control over the operations and management of the subsidiary.

Associate

An associate is an entity in which the Parent Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's and the Parent Company's investments in its subsidiaries and an associate are accounted for using the equity method. Under the equity method, the investments in subsidiaries and an associate is initially recognized at cost. The carrying amount of the investments in subsidiaries and an associate is adjusted to recognize changes in the Group's and the Parent Company's net assets of



the subsidiaries and an associate since the acquisition date. Goodwill relating to the subsidiaries and an associate is included in the carrying value of the investments and is not amortized.

The statement of income reflects the Group's and the Parent Company's share of the financial performance of the subsidiaries and an associate. Any change in OCI of the investee is presented as part of the Group's and the Parent Company's OCI. In addition, when there has been a change recognized directly in the equity of the subsidiary and an associate, the Group and the Parent Company recognize their share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the subsidiaries and an associate are eliminated to the extent of the interest in the subsidiaries and an associate. The aggregate of the Group's share in net income (loss) of subsidiaries and an associate is shown on the income and represents profit or loss after tax.

The financial statements of the subsidiaries and an associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Dividends received are treated as a reduction in the carrying amount of the investments.

Post-acquisition changes in the share of net assets of the subsidiaries include the share in the:

- a. Income or losses;
- b. Remeasurement losses or gains on retirement liability; and
- c. Revaluation increment on land, office units and condominium properties.

Where there has been a change recognized directly in the equity of the subsidiary, the Parent Company recognizes its share of any changes and thus, when applicable, discloses in the statement of changes in equity. If the Parent Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Parent Company discontinues recognizing its share in further losses.

Property and Equipment

Property and equipment, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at appraised value. The appraisal values were determined by professionally qualified and independent appraisers. The revaluation increment resulting from revaluation is credited to 'Revaluation increment on land, office units and condominium properties' under OCI, net of deferred tax liability.

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

Construction in progress is stated at cost and includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant asset is completed and put into operational use.

Depreciation on property and equipment is computed using the straight-line method based on the estimated useful life (EUL) of the depreciable assets.



The EULs of components of property and equipment are as follows:

	Years
Condominium properties	50
Buildings and improvements	25
Furniture, fixtures and equipment	5

Leasehold improvements are amortized over the EUL of one to ten years or the terms of the related leases, whichever is shorter.

The residual values, EULs and methods of depreciation and amortization of property and equipment are reviewed at each statement of financial position date and adjusted prospectively, if appropriate.

Fully depreciated property and equipment are retained in the accounts until these are no longer used and no further depreciation and amortization is charged to the statement of income.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Upon derecognition, the cost and the related accumulated depreciation and amortization and any impairment in value of the asset are removed from the accounts, and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is reflected as income or loss in the statement of income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax (DST) are for the account of the Group. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless:

- a. The exchange transaction lacks commercial substance; or
- b. The fair value of neither the asset received nor the asset given up is reliably measurable, in which case, the cost of the investment property is measured at the carrying amount of the asset given up.

Foreclosed properties are recorded as 'Investment properties' upon:

- a. Entry of judgment in case of judicial foreclosure;
- b. Execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- c. Notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

Subsequent to initial recognition, investment properties are stated at fair value, which reflects the prevailing market conditions at the statement of financial position date. Gains or losses resulting from changes in the fair values of investment properties are recognized in the statement of income under 'Fair value gain from investment properties' in the period in which they arise.

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



For a transfer from investment property carried at fair value to owner-occupied property, the asset's deemed cost for subsequent accounting is its fair value at the date of change in use. For transfers from owner-occupied property to investment property under the fair value model, the related properties are accounted for under property and equipment up to the time of change in use. At that date, any difference between the carrying amount of the property and the fair value is to be treated in the same way as a revaluation and be recognized in OCI and accumulated in equity.

The revaluation surplus included in equity in respect of an item of investment property may be transferred directly to retained earnings when the asset is derecognized. This may involve transferring the whole amount of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through the statement of income.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under 'Profit (loss) from assets sold'.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with changes in fair value recognized in the statement of income. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the statement of income.



Common Control Business Combinations

Business combinations involving entities or businesses under common control are business combinations in which all of the entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for similar to pooling of interest method. Under the pooling of interest method:

- The assets, liabilities and equity of the acquired companies are included in the consolidated financial statements at their carrying amounts;
- No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination; and
- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place. The comparative financial information in the consolidated financial statements for periods prior to the combination is restated only for the period that the entities were under common control.

Intangible Assets

Intangible assets consist of goodwill, branch licenses and software costs.

Goodwill and branch licenses

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of branch licenses acquired in a business combination is its fair value at the date of acquisition.

Following initial recognition, goodwill and branch licenses are measured at cost less any accumulated impairment losses.

Branch licenses have an indefinite useful life as there is no foreseeable limit to the period over which these assets are expected to generate net cash inflows.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Software costs

Software costs, which are purchased by the Group separately for use in its operations, are measured on initial recognition at cost. Following initial recognition, software costs are carried at cost less accumulated amortization and any accumulated impairment losses.

Software costs are amortized over the useful economic life of two to five years. The amortization period and method for software costs are reviewed at least at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in this asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on software costs is recognized in the statement of income.



Gains or losses arising from the derecognition 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 the statement of income when the asset is derecognized.

Impairment of Non-financial Assets

Investments in subsidiaries and an associate, property and equipment, and software costs

At each statement of financial position date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those other assets or groups of assets, in which case, the recoverable amount is assessed as part of the cash-generating unit (CGU) to which it belongs.

When 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 VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises, unless the asset is carried at a revalued amount, in which case, the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to the current statement of income, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is credited to the revaluation increment of the said asset.

Goodwill and branch licenses

Goodwill and branch licenses are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill and branch licenses by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill and branch licenses relate. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill and branch licenses have been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. For branch licenses, a previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of this asset, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized for this asset in prior years.



Common Stock and Additional Paid-in Capital

Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Additional-paid-in capital' in the statement of financial position. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Subscribed Common Stock

Subscribed common stock is recognized at subscribed amount, net of subscription receivable. This will be debited upon full payment of the subscription and issuance of the shares of stock.

Subscription Receivable

Subscription receivable refers to the total amount of subscription to be received. The Parent Company accounted for the subscription receivable as a contra equity account.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

Interest on financial instruments is recognized based on the effective interest method of accounting.

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

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

When calculating the EIR, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized thereafter using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Service charges and penalties

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

Fees and commissions

Loan fees that are directly related to acquisition and origination of loans are included in the cost of the loan and are amortized using the effective interest method over the term of the loan. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. Loan syndication fees are recognized upon completion of all syndication activities and where the Group does not have further obligation to perform under the syndication agreement.



Trading and securities gain (loss) - net

Trading and securities gain (loss) - net represents results arising from trading activities, including gains and losses from changes in fair value of financial assets at FVTPL.

Dividends

Dividends are recognized when the Group's right to receive the payments is established.

Rental

Rental income arising from leased premises is accounted for on a straight-line basis over the lease terms of ongoing leases.

Expense Recognition

Expenses are recognized in the statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Expenses in the statement of income are presented using the nature of expense method. General and administrative expenses are cost attributable to administrative and other business activities of the Group.

Interest Expense

Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate to.

Retirement Benefits

Defined benefit plans

The Parent Company, BDI and RBNI maintain separate defined benefit plans covering all of their respective officers and regular employees.

The net retirement liability is the aggregate of the present value of defined benefit obligation at the statement of financial position date reduced by the fair value of plan assets and adjusted for any effect of limiting a net retirement asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related net retirement. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement costs comprise of service costs and net interest on the net retirement liability.



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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to statement of income in subsequent periods.

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

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

Defined contribution plans

The Parent Company also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan.

BDI also has another plan where it contributes an amount equal to 5.00% of the member's plan salary plus the contribution of the member as deducted from the member's plan salary.

Payments to the defined contribution plans are recognized as expenses when employees have rendered service in exchange for these contributions.

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 re-assessment is made after inception of the lease only if one of the following applies:

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

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



Group as lessee

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

Group as lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Income Taxes

Current tax

Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of Minimum Corporate Income Tax (MCIT) over the Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from excess MCIT over RCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions.

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

Current tax and deferred tax relating to items recognized directly in equity is recognized in OCI and not in the statement of income.



Provisions

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

When the Group expects some of a or all provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense' in the statement of income.

Contingent Assets and Contingent Liabilities

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

Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments are presented in Note 6. No geographical segment information is presented as all of the Group's operations are in the Philippines.

Fiduciary Activities

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



Events after the Statement of Financial Position Date

Post year-end events that provide additional information about the Group's financial position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material to the financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

In the process of applying the Group'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:

Business model test

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers the following:

- a. Sales or derecognition of debt instrument under any of the circumstances spelled out under paragraph 7, section 2 of BSP Circular No. 708, Series of 2011;
- b. Sales made due to occurrence of events specific to the Group that severely curtails the Group's access to regular sources of liquidity other than the lending facilities of the BSP as lender of last resort in order to forestall the Group's having to default on obligations or entering into financial distress;
- c. Sales made due to occurrence of systemic events affecting the industry that severely curtails access to credit and funding other than the lending facilities of the BSP as lender of last resort in order to forestall the need for the Group to draw on the emergency lending facilities;
- d. Sales attributable to the corrective measures of Asset and Liability Committee (ALCO) to bring the asset-liability structure within the Board's risk appetite and targeted ratios;
- e. Sales attributable to a significant decline in debt instruments liquidity characteristics to meet the minimum eligibility criteria of stock of High Quality Liquid Assets (HQLA); and
- f. Sales attributable to systemic movements that have been generally accepted to negatively impact economic conditions, credit quality, and/or the liability profile of the Group.

In 2015, the Parent Company disposed of various securities under its hold-to-collect (HTC) portfolio to realign the composition of Secondary Reserves as provided for under the Parent Company's Liquidity Contingency Plan (see Note 5 for the discussion on Liquidity Risk and Funding Management). The Parent Company assessed whether such sales are consistent with the objective of the business model to collect contractual cash flows and concluded that despite these disposals, there



is no change in its objective in managing the HTC portfolio. The disposals were made for specific reasons and do not constitute a change in the Parent Company's business model for the affected portfolio. Thus, the remaining securities in the affected portfolio continue to be measured at amortized cost (see Note 11).

In September 2016, the Parent Company changed its business model for managing its investments in debt securities to reflect the changes in its strategic priorities and to address the requirements of BSP Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards*, issued on March 10, 2016. The Parent Company's new strategic priorities aim to give focus to the small business segment to realize synergies between the retail network of the new strategic investor. The Parent Company assessed that these events changed the primary objective of the business model for managing its investment in debt securities, that is, from realization of accrual income to investing in high-quality liquid debt securities as a cost effective way of keeping an ample reserve of liquidity ready for a stress-scenario within the framework provided by BSP Circular No. 905.

On October 1, 2016, the first day of the accounting period following the change in business model for managing its investments in debt securities, the Parent Company reclassified debt securities with aggregate face amount of US\$59.15 million (₱2,875.00 million) from the hold-to-collect portfolio to the trading portfolio and recognized a gain on reclassification of US\$4.10 million (₱198.70 million) presented under 'Gain on reclassification of investment securities from amortized cost to fair value through profit or loss' in the statements of income (see Note 11).

In December 2017, the Parent Company created a business model with the objective of using available funding to buy and sell debt securities to be able to collect accrual income, profit from the sale, use the proceeds to support the operating liquidity requirements, and bridge the asset and liability growth of the Parent Company. Debt securities managed under this business model will be classified as financial assets at FVTOCI, in anticipation of the implementation of the final version of PFRS 9 on January 1, 2018. As a result of the creation of the FVTOCI debt securities portfolio, the Parent Company will reclassify certain debt securities with an aggregate face amount of ₱1,623.47 million (US\$27.508 million and ₱250.00 million) from the HTC portfolio to the FVTOCI portfolio effective January 1, 2018. The reclassification of these debt securities will result in recognition of unrealized gain of ₱56.89 million in OCI upon the implementation of the final version of PFRS 9 on January 1, 2018. (see Note 35).

Cash flow characteristics test

When the financial assets are held within a business model to collect its contractual cash flows, the Group assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

Fair value of financial instruments

Where the fair values of financial instruments cannot be derived from active markets, they are determined using valuation techniques. The inputs to these valuation models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.



The carrying values and corresponding fair values of financial instruments, as well as the manner in which fair values were determined, are discussed in more detail in Note 4.

Contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 24).

Change in use of assets

PAS 40, *Investment Property*, requires management to use its judgment to determine whether a property qualifies as an investment property. The Group has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset are accounted for as property and equipment. The Group assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

Reclassifications from and to investment properties are discussed in Notes 13 and 14.

Estimates and Assumptions

Adequacy of allowance for credit losses on loans and receivables

The Group reviews its loans and receivables, which mainly consist of corporate and consumer loans, at each statement of financial position date, to assess whether an allowance for credit losses should be recorded in the statement of income. The Group provides specific allowance on individually significant corporate loans. The other loans are grouped based on credit risk characteristics and are provided with collective allowance.

The identification of impairment and the determination of the recoverable amount involve various assumptions and factors. These include the financial condition of the counterparty, estimated future cash flows and estimated selling prices of the collateral.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 12 and 17, respectively.

Valuation of investment properties

The Group accounts for its investment properties using the fair value model. The investment properties consist of condominium and office units for lease and foreclosed properties.

The determination of the fair values of investment properties involves significant management judgment in the use of assumptions, such as vacancy and rental rates. The valuation also requires the assistance of external appraisers whose calculations depend on certain assumptions, such as capitalization rates, and sales and listings of comparable properties registered within the vicinity and adjustments to sales price based on internal and external factors.

The key assumptions used to determine the fair value of investment properties and the composition and movements in 'Investment properties' are disclosed in Notes 4 and 14, respectively.



Realizability of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group.

The recognized and unrecognized deferred tax assets are disclosed in Note 30.

Impairment of goodwill and intangible assets

The Group determines whether goodwill and branch licenses are impaired at least on an annual basis. Goodwill and branch licenses are written down for impairment where the net present value of the forecasted future cash flows from the CGU is insufficient to support its carrying value.

For branch licenses, an impairment loss recognized in prior periods shall be reversed if, and only if, there has been a change in the estimates used to determine the branch license's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the branch license shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

The recoverable amount of the CGU has been determined based on a VIU calculation using the CGU's cash flow projections from a strategic plan approved by management covering a five-year period. Key assumptions in the VIU calculations are most sensitive to the following assumptions:

- Discount rate, which is based on the cost of equity by reference to comparable entities using the capital asset pricing model;
- Loan and deposit portfolios growth rates; and
- Growth rate to project cash flows beyond the budget period.

The carrying values of goodwill and branch licenses are disclosed in Note 15.

Present value of defined benefit obligation

The cost of defined benefit plans, as well as the present value of defined benefit obligation, is determined using an actuarial valuation. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, salary increase rates, mortality rates and employee turnover rates. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date.

In determining the appropriate discount rate, management considers the present value of cash flows (expected benefit payments) as of valuation date, which is determined using the rates from the derived zero yield curve. The discount rate used is the single-weighted uniform discount rate, which when applied to the same cash flows, results in the same present value as of the valuation date.

Salary increase rates are based on expected future inflation rates, historical annual merit, market and promotional increases.

Other assumptions, such as mortality rates and employee turnover rates, are based on publicly available mortality tables and management's historical experience.

The retirement asset and liability as of December 31, 2017 and 2016 are disclosed in Note 27.



Revaluation of land

The Group measures its land at revalued amounts with changes in appraised value being recognized in OCI. The fair value of the Group's land at revalued amount was based on third party appraisals using market sales comparison approach. The fair value of land classified under 'Property and equipment' is most sensitive to price per square meter, which is disclosed in Note 4.

The revalued amount of land included under 'Property and equipment' in the statements of financial position is disclosed in Note 13.

4. Fair Value Measurement

The following tables provide the fair value hierarchy of the Group's and the Parent Company's assets and liabilities measured at fair value and those for which fair values should be disclosed:

	Consolidated				
	2017				
	Fair Value				
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱2,740,471	₱2,740,471	₱2,740,471	₱-	₱-
Equity securities at FVTOCI	90,639	90,639	-	49,045	41,594
	2,831,110	2,831,110	2,740,471	49,045	41,594
Non-financial assets					
Investment properties:					
Condominium units for lease	5,365,080	5,365,080	-	-	5,365,080
Foreclosed properties:					
Land	593,295	593,295	-	-	593,295
Buildings and improvements	427,415	427,415	-	-	427,415
Office units for lease	50,343	50,343	-	-	50,343
Land classified under Property and equipment	518,482	518,482	-	-	518,482
	6,954,615	6,954,615	-	-	6,954,615
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	13,789,737	12,341,454	10,158,721	2,182,733	-
Private bonds	1,627,464	1,684,362	-	1,684,362	-
Loans and receivables:					
Receivables from customers:					
Corporate loans	36,948,575	36,808,563	-	-	36,808,563
Consumer loans	12,786,693	12,824,748	-	-	12,824,748
Unquoted debt securities	2,811,827	3,134,624	-	-	3,134,624
	67,964,296	66,793,751	10,158,721	3,867,095	52,767,935
	₱77,750,021	₱76,579,476	₱12,899,192	₱3,916,140	₱59,764,144
Liability measured at fair value					
Currency forwards	₱977	₱977	₱-	₱977	₱-
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	43,006,098	43,144,091	-	-	43,144,091
Bills payable	12,567,399	12,569,067	-	-	12,569,067
	55,573,497	55,713,158	-	-	55,713,158
	₱55,574,474	₱55,714,135	₱-	₱977	₱55,713,158



Consolidated					
2016					
Fair Value					
Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱188,014	₱188,014	₱188,014	₱–	₱–
Private bonds	112,469	112,469	–	112,469	–
Equity securities at FVTOCI	52,242	52,242	–	40,935	11,307
Currency forwards	2,136	2,136	–	2,136	–
	354,861	354,861	188,014	155,540	11,307
Non-financial assets					
Investment properties:					
Condominium units for lease	5,044,552	5,044,552	–	–	5,044,552
Foreclosed properties:					
Land	520,617	520,617	–	–	520,617
Buildings and improvements	436,383	436,383	–	–	436,383
Office units for lease	23,858	23,858	–	–	23,858
Land classified under Property and equipment	519,010	519,010	–	–	519,010
	6,544,420	6,544,420	–	–	6,544,420
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	11,510,454	10,479,529	6,952,813	3,526,716	–
Private bonds	1,625,040	1,572,135	–	1,572,135	–
Loans and receivables:					
Receivables from customers:					
Corporate loans	32,725,104	35,570,644	–	–	35,570,644
Consumer loans	8,971,067	11,839,446	–	–	11,839,446
Unquoted debt securities	3,157,373	4,138,789	–	–	4,138,789
	57,989,038	63,600,543	6,952,813	5,098,851	51,548,879
	₱64,888,319	₱70,499,824	₱7,140,827	₱5,254,391	₱58,104,606
Liability for which fair value is disclosed					
Financial liability at amortized cost:					
Time deposits	₱40,737,984	₱40,789,963	₱–	₱–	₱40,789,963

Parent Company					
2017					
Fair Value					
Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱2,740,471	₱2,740,471	₱2,740,471	₱–	₱–
Equity securities at FVTOCI	90,639	90,639	–	49,045	41,594
	2,831,110	2,831,110	2,740,471	49,045	41,594
Non-financial assets					
Investment properties:					
Condominium units for lease	5,365,080	5,365,080	–	–	5,365,080
Foreclosed properties:					
Land	371,669	371,669	–	–	371,669
Buildings and improvements	389,538	389,538	–	–	389,538
Office units for lease	50,343	50,343	–	–	50,343
Land classified under Property and equipment	470,113	470,113	–	–	470,113
	6,646,743	6,646,743	–	–	6,646,743
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	13,789,737	12,341,454	10,158,721	2,182,733	–
Private bonds	1,627,464	1,684,362	–	1,684,362	–

(Forward)



Parent Company					
2017					
	Carrying Value	Total	Fair Value		
			Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loans and receivables:					
Receivables from customers:					
Corporate loans	₱36,948,575	₱38,328,543	₱—	₱—	₱38,328,543
Consumer loans	11,113,269	12,979,939	—	—	12,979,939
Unquoted debt securities	2,811,827	3,134,624	—	—	3,134,624
	66,290,872	68,468,922	10,158,721	3,867,095	54,443,106
	₱75,768,725	₱77,946,775	₱12,899,192	₱3,916,140	₱61,131,443
Liability measured at fair value					
Currency forwards	₱977	₱977	₱—	₱977	₱—
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	41,773,807	41,892,526	—	—	₱41,892,526
Bills payable	12,567,399	12,569,067	—	—	12,569,067
	54,341,206	54,461,593	—	—	54,461,593
	₱54,342,183	₱54,462,570	₱—	₱977	₱54,461,593

Parent Company					
2016					
	Carrying Value	Total	Fair Value		
			Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱188,014	₱188,014	₱188,014	₱—	₱—
Private bonds	112,469	112,469	—	112,469	—
Equity securities at FVTOCI	52,242	52,242	—	40,935	11,307
Currency forwards	2,136	2,136	—	2,136	—
	354,861	354,861	188,014	155,540	11,307
Non-financial assets					
Investment properties:					
Condominium units for lease	5,044,552	5,044,552	—	—	5,044,552
Foreclosed properties:					
Land	324,053	324,053	—	—	324,053
Buildings and improvements	397,727	397,727	—	—	397,727
Office units for lease	23,858	23,858	—	—	23,858
Land classified under Property and equipment	470,113	470,113	—	—	470,113
	6,260,303	6,260,303	—	—	6,260,303
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	11,510,454	10,479,529	1,532,603	8,946,926	—
Private bonds	1,625,040	1,572,135	—	1,572,135	—
Loans and receivables:					
Receivables from customers:					
Corporate loans	32,725,104	35,570,644	—	—	35,570,644
Consumer loans	7,247,089	10,014,890	—	—	10,014,890
Unquoted debt securities	3,157,373	4,138,789	—	—	4,138,789
	56,265,060	61,775,987	1,532,603	10,519,061	49,724,323
	₱62,880,224	₱68,391,151	₱1,720,617	₱10,674,601	₱55,995,933
Liability for which fair value is disclosed					
Financial liability at amortized cost:					
Time deposits	₱39,227,043	₱39,245,247	₱—	₱—	₱39,245,247



Movements in the fair value measurement of 'Equity securities at fair value through other comprehensive income' categorized within Level 3 pertain only to the changes in fair value of unquoted equity securities. No additions and disposals were made in 2017 and 2016.

Movements in the fair value measurement of assets categorized within Level 3 are discussed in Note 13 for Land classified under 'Property and equipment' and Note 14 for 'Investment properties'.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers out of Level 3 fair value measurements in 2017 and 2016.

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities are as follows:

Investment Securities

Debt securities

Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using consensus prices obtained from Bloomberg.

Quoted equity securities

Fair values of club shares are based on prices published in GG&A Club Shares and G&W Club Shares. GG&A Club Shares and G&W Club Shares are involved in trading and leasing proprietary and non-proprietary club shares.

Unquoted equity securities

Fair values of unquoted equity securities are estimated using the guideline publicly-traded company method, which utilizes publicly available information from publicly-traded comparable companies that are the same or similar to the unlisted company being valued.

Loans and Receivables

Cash and other cash items, amounts due from BSP and other banks and interbank loans receivable

Carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits.

Receivables from customers

Fair values of receivables from customers are estimated using the discounted cash flow methodology that makes use of the Group's current incremental lending rates for similar types of loans and receivables.

Unquoted debt securities

Fair values are estimated based on the discounted cash flow methodology that makes use of interpolated risk-free rates plus spread.

Accrued interest receivable and returned checks and other cash items (RCOCI)

Carrying amounts approximate fair values due to the short-term nature of the accounts, with some items that are due and demandable.

Accounts receivable, sales contracts receivable and refundable security deposits

Quoted market prices are not available for these assets. These are not reported at fair value and are not significant in relation to the Group's total portfolio of financial instruments.



Derivative Assets/Liabilities

Currency forwards

Fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the statement of financial position date, taking into account the remaining term to maturity of the derivative assets/liabilities.

Non-financial Assets

Land, office units, condominium units and buildings and improvements

Fair values are based on appraised values determined by professionally qualified and independent appraisers.

Financial Liabilities at Amortized Cost

Deposit liabilities

Fair values of time deposits are estimated based on the discounted cash flow methodology that makes use of the current incremental borrowing rates for similar types of borrowings. The carrying amount of demand and savings deposit liabilities approximate fair value considering that these are due and demandable.

Bills payable

The fair value is estimated using the discounted cash flow methodology that makes use of the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. Where the instrument has a relatively short maturity, carrying amounts approximate fair values.

Outstanding acceptances, manager's checks, accrued interest payable, accrued other expenses, accounts payable, refundable security deposits and due to the Treasurer of the Philippines

Carrying amounts approximate fair values due to the short-term nature of these accounts, with some items that are due and demandable.

Significant Unobservable Inputs

Quantitative information about the Group's and the Parent Company's fair value measurements using significant unobservable inputs (Level 3) follows:

Unquoted equity securities

Year	Fair Value at December 31	Valuation Technique(s)	Unobservable Input(s)	Range	Reasonably Possible Alternative Assumption	Sensitivity of the Fair Value to the Input
2017	₱41,594	Guideline publicly-traded company method	Price to book ratio	0.89 – 1.25	+0.10	₱4,035
			Discount for lack of marketability	30%	-0.10	(4,035)
					+10%	(5,533)
					-10%	5,533
2016	11,307	Guideline publicly-traded company method	Price to book ratio	0.56 – 1.25	+0.10	₱1,410
			Discount for lack of marketability	30%	-0.10	(1,410)
					+10%	(1,615)
					-10%	1,615

The Parent Company estimates the fair value of the unquoted equity securities using the 'benchmark multiples' of comparable publicly-traded companies. The identification of comparable companies considers the similarities between the subject company being valued and the guideline companies in terms of industry, market, product line or service type, growth, etc. The Parent Company also determines an appropriate discount adjustment for the lack of marketability of these unquoted equity securities based on empirical evidence gathered from available public market research.



The use of reasonably possible alternative assumptions in the significant unobservable inputs will affect the fair value of the unquoted equity securities and the OCI (before tax) as presented above.

Investment properties and land classified under 'Property and equipment'

Consolidated				
Description	Fair Value at December 31, 2017	Valuation Technique(s)	Unobservable Input(s)	Range (in Nearest Peso)
Investment properties (Note 14)				
Condominium units for lease	₱5,365,080	Income capitalization approach	Capitalization rate Vacancy rate Rental rates	9.80% 10.00% ₱973 - ₱2,632
Foreclosed properties:				
Land	593,295	Market sales comparison approach	Price per square meter	₱35 - ₱359,020
Buildings and improvements	427,415	Market sales comparison approach	Price per square meter	₱1,695 - ₱116,500
Office units for lease	50,343	Income capitalization approach	Capitalization rate Vacancy rate Rental rates	8.00% 10.00% ₱249 - ₱261
Land classified under Property and equipment (Note 13)	518,482	Market sales comparison approach	Price per square meter	₱9,583 - ₱110,000

Consolidated				
Description	Fair Value at December 31, 2016	Valuation Technique(s)	Unobservable Input(s)	Range (in Nearest Peso)
Investment properties (Note 14)				
Condominium units for lease	₱5,044,552	Income capitalization approach	Capitalization rate Vacancy rate Rental rates	9.20% 10.00% ₱851 - ₱1,684
Foreclosed properties:				
Land	520,617	Market sales comparison approach	Price per square meter	₱35 - ₱143,750
Buildings and improvements	436,383	Market sales comparison approach	Price per square meter	₱976 - ₱112,000
Office units for lease	23,858	Income capitalization approach	Capitalization rate Vacancy rate Rental rates	8.00% 20.00% ₱237 - ₱249
Land classified under Property and equipment (Note 13)	519,010	Market sales comparison approach	Price per square meter	₱16,000 - ₱110,000



Parent Company				
Description	Fair Value at December 31, 2017	Valuation Technique(s)	Unobservable Input(s)	Range (in Nearest Peso)
Investment properties (Note 14)				
Condominium units for lease	₱5,365,080	Income capitalization approach	Capitalization rate Vacancy rate Rental rates	9.80% 10.00% ₱973 - ₱2,632
Foreclosed properties:				
Land	371,669	Market sales comparison approach	Price per square meter	₱150 - ₱359,020
Buildings and improvements	389,538	Market sales comparison approach	Price per square meter	₱1,695 - ₱116,500
Office units for lease	50,343	Income capitalization approach	Capitalization rate Vacancy rate Rental rates	8.00% 10.00% ₱249 - ₱261
Land classified under Property and equipment (Note 13)	470,113	Market sales comparison approach	Price per square meter	₱16,000 - ₱110,000

Parent Company				
Description	Fair Value at December 31, 2016	Valuation Technique(s)	Unobservable Input(s)	Range (in Nearest Peso)
Investment properties (Note 14)				
Condominium units for lease	₱5,044,552	Income capitalization approach	Capitalization rate Vacancy rate Rental rates	9.20% 10.00% ₱851 - ₱1,684
Foreclosed properties:				
Land	324,053	Market sales comparison approach	Price per square meter	₱35 - ₱143,750
Buildings and improvements	397,727	Market sales comparison approach	Price per square meter	₱976 - ₱112,000
Office units for lease	23,858	Income capitalization approach	Capitalization rate Vacancy rate Rental rates	8.00% 20.00% ₱237 - ₱249
Land classified under Property and equipment (Note 13)	470,113	Market sales comparison approach	Price per square meter	₱16,000 - ₱110,000

Investment properties are stated at fair value and land classified under 'Property and equipment' are stated at appraised value, which has been determined based on valuations made by professionally qualified appraisers accredited by the BSP and SEC. The fair values of foreclosed assets were derived based on market sales comparison approach. Under this approach, recent transactions for similar properties in the same areas as the investment properties were considered, taking into account the economic conditions prevailing at the time the valuation were made. Prices of recent transactions are adjusted to account for differences in a property's size, shape, location, marketability and bargaining allowances. For depreciable properties, other inputs considered in the valuations will include the age and remaining life of the buildings. The fair values of land and foreclosed properties are expected to increase (decrease) as price per square meter, in isolation, increases (decreases).



On the other hand, the fair value of the condominium and office units for lease was determined using the income capitalization approach model. The income capitalization approach model is used since the properties generate revenue from rental income. Income capitalization approach is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step – either by dividing the income estimate by an appropriate income rate or by multiplying the income estimate by an appropriate income factor. The rate of interest calculated represents the relationship between income and value observed in the market and is derived through comparable sales analysis. The income from a property, usually the annual net operating income or pre-tax cash flow, is divided by its sale or equity price to obtain the income rate. The fair values of condominium and office units for lease are expected to increase (decrease) as rental rates, in isolation, increase (decrease), but expected to decrease (increase) as the capitalization and vacancy rates, in isolation, increase (decrease).

The valuation, therefore, is based on the following critical assumptions:

- Rental rates are based on contracted rental rates as of December 31, 2017 and 2016. All other income and expenses are based on actual amounts earned/incurred in 2017 and 2016.
- Capitalization rate (income rate) is based on market rent for similar properties which ranges from 5.89% to 9.93% in 2017 and from 6.57% to 9.84% in 2016.
- Vacancy rates are based on vacancy rates for comparable properties within the area where the Group's properties are located, which is 10% in 2017 and ranges from 10% to 20% in 2016.
- The floor areas used in the valuation are the total leasable area.

There has been no change in the valuation techniques used from 2016 to 2017.

5. Financial Risk Management Objectives and Policies

Introduction

Risk is inherent in the Group's activities but is managed through a continuing and pro-active process of identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group is exposed to the following risks from its financial instruments:

- a. Credit risk
- b. Liquidity risk
- c. Market risk
 - i. Interest rate risk
 - ii. Foreign currency risk
 - iii. Equity price risk

Risk management structure

The Group's risk management environment is characterized by a well-defined risk organizational structure, flow of risk information, risk-based audit coverage, and an established compliance system.



BOD

The BOD is responsible for establishing and maintaining a sound risk management system and is ultimately accountable for identifying and controlling risks; there are, however, separate independent bodies responsible for managing and monitoring risks.

Risk Oversight Committee (ROC)

The ROC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

Enterprise Risk Management Group (ERMG)

The ERMG is an independent unit within the Parent Company that directly reports to the ROC. It is the responsibility of the ERMG to identify, analyze and measure risks from the Parent Company's trading, lending, borrowing and other transactional activities. It also recommends control policies and procedures to mitigate risk in identified risk areas in Treasury, Credit, Trust and other areas of operations.

Risk control

The Risk Control function performs the important day-to-day monitoring of risk exposures of the Parent Company against approved limits and reporting of such exposures, and implementation of policies and control procedures.

Treasury segment

The Treasury Segment is responsible for managing the Parent Company's assets and liabilities. It is also primarily responsible for the management of the funding and liquidity risks of the Parent Company.

Internal Audit Group (IAG)

Risk management processes throughout the Group are audited by the IAG which examines both the adequacy of the procedures and the Group's compliance thereto. The IAG discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect both the business strategy and market environment of the Group, as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information gathered from all the businesses is evaluated and processed in order to analyze, control and identify risks early. All significant information is presented to the BOD, the ROC, and the head of each business division. The report includes credit exposure to groups and industries, Value-at-Risk (VaR), liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis for prudential and financial reporting.



Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk arises from its lending and trading of securities and foreign exchange activities. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and groups of borrowers, as well as limits on large lines and industry concentrations. The ERMG monitors exposures in relation to these limits.

The Group obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. The Group's credit risk management process is guided by policies and procedures established by Corporate & Commercial Banking Group (CCBG), Consumer Finance Group and ERMG and approved by the BOD.

The Parent Company has an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner that is as accurate as possible and uses the risk information for business and financial decision making. The system covers companies with asset size of more than ₱15.00 million and with financial statements audited by SEC-accredited auditors starting reporting year 2005. The Parent Company adopted the Bankers Association of the Philippines model which has been approved by the BSP under BSP Circular No. 439 as a minimum standard for an ICRRS. The system has two components, namely: (a) Borrower Risk Rating System which provides an assessment of credit risk without considering the security arrangements, and (b) Facility Risk Factor which is an account rating taking into account the collateral and other credit risk mitigants. The rating scale consists of 14 grades, ten of which fall under unclassified accounts and the remaining four are classified accounts according to regulatory provisioning guidelines. The Parent Company also adopts a separate scoring system for its consumer loan portfolio as part of its credit undertaking. Risks are mitigated by focusing on the accounts with a low probability of default while exercising prudent judgement on accounts whose risks are higher than normal but remains within the Parent Company's risk appetite.

The Group has a loan portfolio quality and credit process review in place that allows the Group to continuously identify and assess the risks on credit exposures and take corrective actions. This function is carried out by the Group's Credit Review Unit under the ERMG.

Maximum exposure to credit risk

The tables below provide the analysis of the maximum exposure of the Group's and the Parent Company's financial instruments to credit risk, excluding those where the carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements:

	Consolidated					
	2017			2016		
	Gross Maximum Exposure	Net Exposure	Financial Effect of Collateral or Credit Enhancement	Gross Maximum Exposure	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Receivables from customers:						
Corporate loans	₱36,948,575	₱30,321,835	₱6,626,740	₱32,725,104	₱26,214,633	₱6,510,471
Consumer loans	12,786,693	5,818,145	6,968,548	8,971,067	3,206,228	5,764,839
Credit exposure	₱49,735,268	₱36,139,980	₱13,595,288	₱41,696,171	₱29,420,861	₱12,275,310



	Parent Company					
	2017			2016		
	Gross Maximum Exposure	Net Exposure	Financial Effect of Collateral or Credit Enhancement	Gross Maximum Exposure	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Receivables from customers:						
Corporate loans	₱36,948,575	₱30,321,835	₱6,626,740	₱32,725,104	₱26,214,633	₱6,510,471
Consumer loans	11,113,269	4,249,071	6,864,198	7,247,089	1,573,013	5,674,076
Credit exposure	₱48,061,844	₱34,570,906	₱13,490,938	₱39,972,193	₱27,787,646	₱12,184,547

For sales contracts receivable, the fair value of collaterals and their corresponding financial effect on credit exposure are no longer disclosed since the system does not regularly monitor such information. The carrying value of these sales contracts receivable are disclosed in Note 12.

Risk concentrations by industry

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

Group exposures and risk concentrations to industries are monitored and reported in accordance with the Group's policies on group lending/inter-corporate earmarking and managing large exposure and credit risk concentrations.

Credit-related commitment risks

The Parent Company makes available to its customers guarantees that may require the Parent Company to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Parent Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Parent Company to similar risks to loans and are mitigated by the same control processes and policies.



The industry sector analysis of the maximum exposure of the Group to credit risk concentration follows (amounts in millions):

	Consolidated									
	2017					2016				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Investment Securities	Others**	Total
Government	₱1,540	₱15,341	₱16,530	₱—	₱33,411	₱2,092	₱13,356	₱11,699	₱—	₱27,147
Wholesale and retail trade	11,039	—	—	2,129	13,168	9,552	—	—	2,099	11,651
Construction and real estate	11,281	—	250	130	11,661	8,548	—	250	414	9,212
Manufacturing	8,854	—	—	1,205	10,059	7,875	—	—	1,253	9,128
Banks and financial institutions	4,264	1,701	—	—	5,965	5,183	3,307	—	—	8,490
Transportation, storage, communication	1,677	—	—	—	1,677	1,825	—	112	—	1,937
Electricity, gas and water supply	4,561	—	—	—	4,561	2,941	—	—	3	2,944
Agriculture, hunting and forestry	1,619	—	—	1	1,620	1,125	—	—	40	1,165
Mining and quarrying	48	—	—	19	67	282	—	—	15	297
Others	11,040	—	1,378	61	12,479	9,274	—	1,375	120	10,769
	55,923	17,042	18,158	3,545	94,668	48,697	16,663	13,436	3,944	82,740
Less allowance for credit and impairment losses	2,570	—	—	—	2,570	2,608	—	—	—	2,608
	₱53,353	₱17,042	₱18,158	₱3,545	₱92,098	₱46,089	₱16,663	₱13,436	₱3,944	₱80,132

* Consist of due from BSP, due from other banks, and interbank loans receivable

** Consist of RCOCI, refundable deposits, and commitments and contingencies

	Parent Company									
	2017					2016				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Investment Securities	Others**	Total
Government	₱1,540	₱15,279	₱16,530	₱—	₱33,349	₱2,092	₱13,277	₱11,699	₱—	₱27,068
Wholesale and retail trade	10,974	—	—	2,129	13,103	9,486	—	—	2,099	11,585
Construction and real estate	11,281	—	250	130	11,661	8,454	—	250	414	9,118
Manufacturing	8,854	—	—	1,205	10,059	7,875	—	—	1,253	9,128
Banks and financial institutions	4,264	1,501	—	—	5,765	5,183	2,941	—	—	8,124
Transportation, storage, communication	1,677	—	—	—	1,677	1,825	—	112	—	1,937
Electricity, gas and water supply	4,561	—	—	—	4,561	2,941	—	—	3	2,944
Agriculture, hunting and forestry	1,318	—	—	1	1,319	808	—	—	40	848
Mining and quarrying	48	—	—	19	67	282	—	—	15	297
Others	9,664	—	1,378	59	11,101	7,984	—	1,375	118	9,477
	54,181	16,780	18,158	3,543	92,662	46,930	16,218	13,436	3,942	80,526
Less allowance for credit and impairment losses	2,561	—	—	—	2,561	2,626	—	—	—	2,626
	₱51,620	₱16,780	₱18,158	₱3,543	₱90,101	₱44,304	₱16,218	₱13,436	₱3,942	₱77,900

* Consist of due from BSP, due from other banks, and interbank loans receivable

** Consist of RCOCI, refundable deposits, and commitments and contingencies



Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions: cash or securities
- For commercial lending: deposit hold-out, mortgages over real estate properties, machineries, inventory and trade receivables
- For retail lending: mortgages over residential properties and motor vehicles

It is the Group's policy to dispose repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Collaterals obtained by the Group and the Parent Company from settlement of loans and receivables in 2017 and 2016 and which remain outstanding as of December 31, 2017 and 2016 amounted to ₱47.70 million and ₱87.85 million, respectively (see Note 14).

The Group does not hold collateral on financial assets which it may sell or repledge in the absence of default by the owner of the collateral.

Credit quality per class of financial assets

Loans and receivables

The description and definition of the loan grades or Internal Credit Risk Rating used by the Group for corporate loans follow:

Borrower's Risk Rating (BRR) Grade	Description	Definition
1	Excellent	An obligor rated 1 has an excellent capacity to meet its financial commitments with minimal credit risk.
2	Strong	An obligor rated 2 has a strong capacity to meet its financial commitments with very low credit risk.
3	Good	An obligor rated 3 has a good capacity to meet its financial commitments with low credit risk.
4	Fairly Good	An obligor rated 4 differs from rated 3 obligor only to a small degree and has a fairly good capacity to meet its financial commitments with low credit risk.
5	Satisfactory	An obligor rated 5 has a satisfactory capacity to meet its financial commitments with moderate credit risk.
6	Fairly Satisfactory	An obligor rated 6 has a fairly satisfactory capacity to meet its financial commitments with moderate credit risk.
7	Acceptable	An obligor rated 7 has an acceptable capacity to meet its financial commitments with substantial credit risk.

(Forward)



Borrower's Risk Rating (BRR) Grade	Description	Definition
8	Acceptable with Care	A credit, though acceptable, needs care in granting facilities. However, the borrower is still creditworthy.
9	Acceptable with Caution	A credit, though acceptable, needs significant caution to be exercised while granting facilities to the borrower. The borrower is still creditworthy but has problems that need to be addressed.
10	Watch List	Below standard. An obligor rated 10 is judged to be of poor credit standing and is subject to high default risk.
11	Loans Especially Mentioned	These are loans that have unlocated collateral folders and documents, not supported by board resolutions authorizing the borrowings, without credit investigation report or not supported by documents required under Subsection 4312Q.1 of the Manual of Regulations for Banks.
12	Substandard	Loans which involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics.
13	Doubtful	Loans which have existing facts, conditions, and values that make collection or liquidation in full highly improbable and in which substantial loss is probable.
14	Loss	Loans which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

The credit quality of the Group's loans and receivables from customers, which is based on the ICRRS grade, is grouped as follows:

High Grade (BRR 1 to 7)

Under this category, the borrower has the apparent ability to satisfy its obligations in full and therefore, no loss in ultimate collection is anticipated. These loans or portions thereof are secured by hold-outs on deposits/deposit substitute, margin deposits or government-supported securities, other readily marketable collateral or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

Standard Grade (BRR 8 to 10)

Under this category are accounts not considered adversely classified but require close supervision/monitoring due to some warning signals such as start-up business, substantial changes in the business affecting operation or management, three continuous years of substantial decline in income (exclusive of extraordinary income/losses).

Substandard Grade or Past-Due (BRR 11 to 14)

Under this category are loans which exhibit unfavorable record or unsatisfactory characteristics, or where existing facts, conditions and values, make collection or liquidation in full improbable. Positive and vigorous management action is required to avert or minimize loss.



The description of the loan grades or Internal Credit Risk Rating used by the Group for consumer loans follow:

Risk Grade	Score Range	Description	Assessment of Credit Quality
AA	840-900	Very low risk	High grade
BB	830-839	Low risk	High grade
CC	810-829	Low risk	High grade
DD	790-809	Medium risk	Standard grade
EE	770-789	Medium risk	Standard grade
FF	750-769	Medium risk	Standard grade
GG	730-749	Medium risk	Standard grade
HH	700-729	High risk	Substandard grade
II	640-699	High risk	Substandard grade
JJ	300-639	Very high risk	Substandard grade

Due from banks, interbank receivables, government securities and corporate investments

The Group follows an internally developed risk rating system for local banks and external risk ratings [that is, Standard and Poor's (S&P)] for foreign banks, government securities and corporate investments.

A description of the rating systems for local banks follows:

High Grade (Tier 1)

Tier 1 - Banks categorized under this tier are capable of withstanding very difficult market conditions for 2-3 years without deteriorating to a substandard credit classification by virtue of their size, reputation and ranking in the industry.

Standard Grade (Tier 2 to Tier 3)

These are accounts that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the financial instrument, thus, increase credit risk to the Group.

Tier 2 - Banks categorized under this tier may deteriorate to substandard within 1-2 years under very difficult market conditions.

Tier 3 - Banks categorized under this tier may deteriorate to substandard within one year under very difficult market conditions. These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱3.00 billion to less than ₱4.50 billion and net income of ₱200.00 million to less than ₱400.00 million are included in this category.

Substandard Grade (Tier 4)

Tier 4 - These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱1.50 billion to less than ₱3.00 billion and net income of ₱70.00 million to less than ₱200.00 million are included in this category.



The following is the credit rating scale applicable for foreign banks, government securities, and corporate investment outlets (aligned with S&P ratings):

AAA - Obligor's capacity to meet its financial commitment is extremely strong.

AA - Obligor's capacity to meet its financial commitment is very strong. It differs from the highest-rated obligors at a minimal degree.

A - Obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors rated in higher-rated categories.

BBB and below:

BBB - Obligation rated 'BBB' has adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB - Obligation is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - Obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC - Obligation is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC - Obligation is currently highly vulnerable to nonpayment.

C - Obligation is currently highly vulnerable to nonpayment, payment arrearages allowed by the terms of the documents, and subject of a bankruptcy petition or similar action which have not experienced a payment default.

Among others, the 'C' rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

D - Obligation is in payment default. Payments on an obligation are not made on the due date even if the applicable grace period has not expired. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to 'D' upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.



The tables below show the credit quality by class of financial assets based on the credit rating system of the Group and the Parent Company:

	Consolidated						
	2017						
	Neither Past Due nor Impaired				Past Due But Not Impaired	Past Due and Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Due from BSP	₱15,340,711	₱—	₱—	₱—	₱—	₱—	₱15,340,711
Due from other banks	372,650	202,196	—	86,369	—	—	661,215
	15,713,361	202,196	—	86,369	—	—	16,001,926
Loans and receivables:							
Receivables from customers*:							
Corporate	34,585,237	2,119,749	4,968	—	426,375	1,197,733	38,334,062
Consumer	11,588,636	13,429	295,187	—	1,609,137	36,942	13,543,331
Unquoted debt securities	1,406,267	—	—	1,405,560	—	—	2,811,827
Accrued interest receivable	264,611	20,525	9,200	128,370	54,473	337,417	814,596
Accounts receivable	219	216,813	19,702	—	—	14,403	251,137
Sales contracts receivable	—	129,596	—	—	30,129	8,368	168,093
RCOCI	—	—	10,400	—	—	—	10,400
Refundable security deposits	—	—	29,414	—	—	—	29,414
	47,844,970	2,500,112	368,871	1,533,930	2,120,114	1,594,863	55,962,860
Total	₱63,558,331	₱2,702,308	₱368,871	₱1,620,299	₱2,120,114	₱1,594,863	₱71,964,786

*At gross amount but net of unearned discounts and capitalized interest

	AA	A	BBB and Below	Total
Due from other banks	₱320,871	₱176,864	₱7,113	₱504,848
Interbank loans receivable	62,413	472,512	—	534,925
Financial assets at FVTPL:				
Government securities	998,542	—	1,741,929	2,740,471
Investment securities at amortized cost:				
Government securities	—	—	13,789,737	13,789,737
Private bonds	—	1,377,466	249,998	1,627,464
	₱1,381,826	₱2,026,842	₱15,788,777	₱19,197,445

	Consolidated						
	2016						
	Neither Past Due nor Impaired				Past Due But Not Impaired	Past Due and Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Due from BSP	₱13,356,075	₱—	₱—	₱—	₱—	₱—	₱13,356,075
Due from other banks	343,647	33,712	262,425	13,051	—	—	652,835
	13,699,722	33,712	262,425	13,051	—	—	14,008,910
Loans and receivables:							
Receivables from customers*:							
Corporate	29,837,461	2,737,701	8,274	—	511,660	1,156,648	34,251,744
Consumer	8,149,510	231,746	43,095	—	1,104,873	38,204	9,567,428
Unquoted debt securities	1,606,323	—	—	1,551,050	—	—	3,157,373
Accrued interest receivable	232,058	16,074	73	113,773	14,342	403,801	780,121
Accounts receivable	1,508	192,045	99,856	425,678	—	42,264	761,351
Sales contracts receivable	—	142,614	9,255	—	17,145	10,574	179,588
RCOCI	—	—	2,406	—	—	—	2,406
Refundable security deposits	—	1,604	28,449	—	—	—	30,053
	39,826,860	3,321,784	191,408	2,090,501	1,648,020	1,651,491	48,730,064
Total	₱53,526,582	₱3,355,496	₱453,833	₱2,103,552	₱1,648,020	₱1,651,491	₱62,738,974

*At gross amount but net of unearned discounts and capitalized interest



	AA	A	BBB and Below	Total
Due from other banks	₱446,386	₱683,771	₱1,213,766	₱2,343,923
Interbank loans receivable	49,720	260,411	—	310,131
Financial assets at FVTPL:				
Government securities	—	—	188,014	188,014
Private bonds	—	—	112,469	112,469
Investment securities at amortized cost:				
Government securities	—	—	11,510,454	11,510,454
Private bonds	—	—	1,625,040	1,625,040
	₱496,106	₱944,182	₱14,649,743	₱16,090,031

Parent Company							
2017							
	Neither Past Due nor Impaired			Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
	High Grade	Standard Grade	Substandard Grade				
Due from BSP	₱15,279,084	₱—	₱—	₱—	₱—	₱—	₱15,279,084
Due from other banks	172,407	202,196	—	86,369	—	—	460,972
	15,451,491	202,196	—	86,369	—	—	15,740,056
Loans and receivables:							
Receivables from customers*:							
Corporate	34,585,237	2,119,749	4,968	—	426,375	1,197,733	38,334,062
Consumer	10,365,551	—	275,845	—	1,222,214	—	11,863,610
Unquoted debt securities	1,406,267	—	—	1,405,560	—	—	2,811,827
Accrued interest receivable	208,738	20,525	9,200	128,370	54,473	360,188	781,494
Accounts receivable	—	214,955	19,702	—	—	—	234,657
Sales contracts receivable	—	129,569	—	—	25,764	—	155,333
RCOCI	—	—	10,400	—	—	—	10,400
Refundable security deposits	—	—	27,810	—	—	—	27,810
	46,565,793	2,484,798	347,925	1,533,930	1,728,826	1,557,921	54,219,193
Total	₱62,017,284	₱2,686,994	₱347,925	₱1,620,299	₱1,728,826	₱1,557,921	₱69,959,249

*At gross amount but net of unearned discounts and capitalized interest

	AA	A	BBB and Below	Total
Due from other banks	₱320,871	₱176,864	₱7,113	₱504,848
Interbank loans receivable	62,413	472,512	—	534,925
Financial assets at FVTPL:				
Government securities	998,542	—	1,741,929	2,740,471
Investment securities at amortized cost:				
Government securities	—	—	13,789,737	13,789,737
Private bonds	—	1,377,466	249,998	1,627,464
	₱1,381,826	₱2,026,842	₱15,788,777	₱19,197,445

Parent Company							
2016							
	Neither Past Due nor Impaired			Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
	High Grade	Standard Grade	Substandard Grade				
Due from BSP	₱13,276,681	₱—	₱—	₱—	₱—	₱—	₱13,276,681
Due from other banks	20,837	4,312	262,425	—	—	—	287,574
	13,297,518	4,312	262,425	—	—	—	13,564,255
Loans and receivables:							
Receivables from customers*:							
Corporate	29,837,461	2,737,701	8,274	—	511,660	1,156,648	34,251,744
Consumer	6,664,113	206,788	—	—	980,203	—	7,851,104
Unquoted debt securities	1,606,323	—	—	1,551,050	—	—	3,157,373
Accrued interest receivable	147,480	15,913	73	113,773	14,342	456,639	748,220
Accounts receivable	—	228,281	99,856	425,678	—	—	753,815
Sales contracts receivable	—	142,597	9,255	—	15,556	—	167,408
RCOCI	—	—	2,406	—	—	—	2,406
Refundable security deposits	—	—	28,449	—	—	—	28,449
	38,255,377	3,331,280	148,313	2,090,501	1,521,761	1,613,287	46,960,519
Total	₱51,552,895	₱3,335,592	₱410,738	₱2,090,501	₱1,521,761	₱1,613,287	₱60,524,774

*At gross amount but net of unearned discounts and capitalized interest



	AA	A	BBB and Below	Total
Due from other banks	₱446,386	₱683,771	₱1,213,766	₱2,343,923
Interbank loans receivable	49,720	260,411	–	310,131
Financial assets at FVTPL:				
Government securities	–	–	188,014	188,014
Private bonds	–	–	112,469	112,469
Investment securities at amortized cost:				
Government securities	–	–	11,510,454	11,510,454
Private bonds	–	–	1,625,040	1,625,040
	₱496,106	₱944,182	₱14,649,743	₱16,090,031

As of December 31, 2017 and 2016, restructured loans by the Group which are neither past due nor impaired are as follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Receivables from customers:				
Corporate	₱55,229	₱95,886	₱55,229	₱95,886
Consumer	33,941	15,003	35,211	10,777

Impairment Assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days, or if there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: specific or individually assessed allowances and collectively assessed allowances.

Specific impairment testing

Accounts that are subjected to specific impairment are those individually significant and with objective evidence of impairment. Indicators of impairment include the following conditions/ events: account is equivalent to the Parent Company's internal credit risk rating of 11 to 14, with past due interest and/or principal payments and adverse changes in industry conditions that affect the borrower.

Net recoverable amount is the total cash inflows to be collected over the entire term of the loan, which may be based on an agreed restructuring agreement, rehabilitation plan or expected proceeds from the foreclosing and sale of the collateral. Upon determining the forecast of expected net cash flows, the present value of the net expected cash flows from the asset is determined using the original EIR.

Collective impairment testing

Accounts that are not individually significant and have no objective evidence of impairment are grouped based on similar credit risk characteristics and are collectively assessed for impairment.

a. Collective impairment - corporate accounts

For the purpose of collective impairment assessment, corporate accounts are grouped on the basis of the economic activity of the borrower. Impairment loss is derived by multiplying the outstanding loan balance against a loss rate. The loss rate, which estimates the incurred loss from the credit exposure, is the product of the Probability of Default Rate (PD) and the Loss Given Default Rate (LGD). PD is estimated based on the three-year historical average default experience of the Parent Company, while LGD is estimated based on loss experience for the same reference period.



b. *Collective impairment - consumer accounts*

Receivables from consumer loans are assessed for impairment collectively because these receivables are not individually significant. Accounts are grouped by type of product - personal loans, home loans and auto loans. The allowance for credit losses is determined based on the net flow rate methodology. This methodology relies on the historical data of net flow tables to establish a percentage ('net flow rate') of receivables that are current or in any state of delinquency (that is, 30, 60, 90, 120, 150 and 180 days past due) as of the statement of financial position date. The gross provision is then computed based on the outstanding balances of these receivables from consumer loans as of the statement of financial position date and the net flow rates determined for the current and each delinquency bucket. These rates are based on the Group's historical experience, which covers a minimum of three-year cycle.

Aging analysis of past due but not impaired loans per class of financial assets

Aging analysis of past due but not impaired financial assets are shown below:

	Consolidated					
	2017					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	₱40,226	₱21,524	₱7,942	₱27,490	₱329,193	₱426,375
Consumer loans	442,501	—	127,612	479,941	559,083	1,609,137
Accrued interest receivable	6,322	64	4,395	5,564	38,128	54,473
Sales contracts receivable	—	10,823	391	6,180	12,735	30,129
	₱489,049	₱32,411	₱140,340	₱519,175	₱939,139	₱2,120,114

	Consolidated					
	2016					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	₱6,163	₱6,316	₱2,484	₱38,718	₱457,979	₱511,660
Consumer loans	359,355	122,675	132,959	153,889	335,995	1,104,873
Accrued interest receivable	5,674	7,891	1	776	—	14,342
Sales contracts receivable	1,589	163	2,404	256	12,733	17,145
	₱372,781	₱137,045	₱137,848	₱193,639	₱806,707	₱1,648,020

	Parent Company					Total
	2017					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	
Receivables from customers:						
Corporate loans	₱40,226	₱21,524	₱7,942	₱27,490	₱329,193	₱426,375
Consumer loans	442,501	—	102,333	118,297	559,083	1,222,214
Accrued interest receivable	6,322	64	4,395	5,564	38,128	54,473
Sales contracts receivable	—	10,823	72	2,134	12,735	25,764
	₱489,049	₱32,411	₱114,742	₱153,485	₱939,139	₱1,728,826



	Parent Company					
	2016					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	₱6,163	₱6,316	₱2,484	₱38,718	₱457,979	₱511,660
Consumer loans	353,898	122,675	71,601	96,034	335,995	980,203
Accrued interest receivable	5,674	7,891	1	776	—	14,342
Sales contracts receivable	—	162	2,404	256	12,734	15,556
	₱365,735	₱137,044	₱76,490	₱135,784	₱806,708	₱1,521,761

Total credit risk exposure

The tables below show the different credit risk exposures of the Group and of the Parent Company by risk weight applied in accordance with BSP Circular No. 538 as reported to the BSP:

	Consolidated						
	2017						
	Net Exposures ^(a)	Risk Weights ^(b)					
		0%	20%	50%	75%	100%	150%
On-balance sheet assets ^(c)	₱93,403	₱28,422	₱870	₱5,350	₱54	₱57,654	₱1,053
Credit risk weighted on-balance sheet assets (d = b x c)	62,124	—	174	2,675	41	57,654	1,580
Off-balance sheet assets ^(e)	9,919	6,392	1,455	—	—	2,072	—
Credit risk weighted off-balance sheet assets (f = b x e)	2,363	—	291	—	—	2,072	—
Banking Book ^(g)	535	—	—	—	—	535	—
Counter party risk-weighted assets in Banking Books (h = b x g)	535	—	—	—	—	535	—
Total Credit Risk Weighted Assets ^(d + f + h)	₱65,022	₱—	₱465	₱2,675	₱41	₱60,261	₱1,580
(a)	Net of specific provisions						

(a) Net of specific provisions

	Consolidated						
	2016						
	Net Exposures ^(a)	Risk Weights ^(b)					
		0%	20%	50%	75%	100%	150%
On-balance sheet assets ^(c)	₱83,757	₱24,727	₱774	₱5,632	₱65	₱51,604	₱955
Credit risk weighted on-balance sheet assets (d = b x c)	56,057	—	155	2,816	49	51,604	1,433
Off-balance sheet assets ^(e)	11,105	7,245	1,637	—	—	2,223	—
Credit risk weighted off-balance sheet assets (f = b x e)	2,550	—	327	—	—	2,223	—
Banking Book ^(g)	592	—	—	—	—	592	—
Counter party risk-weighted assets in Banking Books (h = b x g)	592	—	—	—	—	592	—
Total Credit Risk Weighted Assets ^(d + f + h)	₱59,199	₱—	₱482	₱2,816	₱49	₱54,419	₱1,433

(a) Net of specific provisions



	Parent Company						
	2017						
	Net	Risk Weights ^(b)					
	Exposures ^(a)	0%	20%	50%	75%	100%	150%
On-balance sheet assets ^(c)	₱91,273	₱28,332	₱865	₱5,350	₱—	₱55,780	₱946
Credit risk weighted on-balance sheet assets (d = b x c)	60,047	—	173	2,675	—	55,780	1,419
Off-balance sheet assets ^(e)	9,919	6,392	1,455	—	—	2,072	—
Credit risk weighted off-balance sheet assets (f = b x e)	2,363	—	291	—	—	2,072	—
Banking Book ^(g)	535	—	—	—	—	535	—
Counter party risk-weighted assets in Banking Books (h = b x g)	535	—	—	—	—	535	—
Total Credit Risk Weighted Assets ^(d + f + h)	₱62,945	₱—	₱464	₱2,675	₱—	₱58,387	₱1,419

(a) Net of specific provisions

	Parent Company						
	2016						
	Net	Risk Weights ^(b)					
	Exposures ^(a)	0%	20%	50%	75%	100%	150%
On-balance sheet assets ^(c)	₱81,376	₱24,625	₱766	₱5,632	₱—	₱49,494	₱859
Credit risk weighted on-balance sheet assets (d = b x c)	53,752	—	153	2,816	—	49,494	1,289
Off-balance sheet assets ^(e)	11,105	7,245	1,637	—	—	2,223	—
Credit risk weighted off-balance sheet assets (f = b x e)	2,550	—	327	—	—	2,223	—
Banking Book ^(g)	593	—	—	—	—	593	—
Counter party risk-weighted assets in Banking Books (h = b x g)	593	—	—	—	—	593	—
Total Credit Risk Weighted Assets ^(d + f + h)	₱56,895	₱—	₱480	₱2,816	₱—	₱52,310	₱1,289

(a) Net of specific provisions

Liquidity Risk and Funding Management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required. In addition, the Group makes use of a monthly system generated Liquidity Gap Report in analyzing its liquidity position where the difference between the Group's maturing assets and liabilities is captured. A Maximum Cumulative Outflow limit is likewise established to control the liquidity gap for each currency. The ALCO meets twice every month to discuss, among others, the liquidity state of the Group.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the BSP equal to 20.00% of customer deposits. The liquidity position is assessed and managed



under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

In managing intraday liquidity, the Parent Company has an internal buffer fund called “Secondary Reserve” for Deposit Liabilities, Deposit Substitutes, and Repurchase Agreements. The buffer fund serves to manage potential substantial liability outflows and the demand and supply of funds for new loans. This will allow the Parent Company to readily support its new business strategies and direction and management of liquidity risk. The daily movement of Secondary Reserve serves as a primary indicator of liquidity condition of the Parent Company. In addition, the Parent Company monitors the liquidity characteristics of its portfolio of assets that will provide necessary liquidity support during periods of liquidity stress as required by BSP Circular No. 905.

Analysis of financial instruments by remaining contractual maturities

The tables below summarize the maturity profile of the Group’s and the Parent Company’s financial instruments as of December 31, 2017 and 2016, based on undiscounted contractual payments, except for financial assets at FVTPL. Repayments which are subject to notice are treated as if notices are to be given immediately. However, the Group and the Parent Company expect that many customers will not request repayment on the earliest date the Group and the Parent Company could be required to pay and the tables do not reflect the expected cash flows indicated by the Group’s and the Parent Company’s deposit retention history (amounts in millions):

	Consolidated					
	2017					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱–	₱2,740	₱–	₱–	₱–	₱2,740
Investment securities at amortized cost:						
Government securities	–	204	892	880	18,241	20,217
Private bonds	–	19	64	83	1,822	1,988
Loans and receivables:						
Due from BSP	15,341	–	–	–	–	15,341
Due from other banks	170	996	–	–	–	1,166
Interbank loans receivable	–	485	50	–	–	535
Receivables from customers:						
Corporate	1,463	17,359	6,843	2,037	15,914	43,616
Consumer	1,743	532	2,453	3,707	15,128	23,563
	₱18,717	₱22,335	₱10,302	₱6,707	₱51,105	₱109,166
Financial liabilities						
Deposit liabilities:						
Demand	₱19,400	₱–	₱–	₱–	₱–	₱19,400
Savings	8,328	2	–	–	–	8,330
Time	8	33,228	5,226	3,469	1,604	43,535
Bills payable:						
Private firms and individuals	–	7,759	55	–	–	7,814
Banks and other financial institutions	–	4,765	–	–	–	4,765
Outstanding acceptances	64	–	–	–	–	64
Manager’s checks	427	–	–	–	–	427
Accrued interest payable	4	83	5	3	–	95
Accrued other expenses	12	268	–	–	–	280
Other liabilities:						
Accounts payable	317	–	–	–	–	317
Refundable security deposits	–	–	51	1	115	167
Due to the Treasurer of the Philippines	1	31	–	–	–	32
	₱28,561	₱46,136	₱5,337	₱3,473	₱1,719	₱85,226

*Including non-performing loans and receivables



	Consolidated					
	2016					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱—	₱300	₱—	₱—	₱—	₱300
Investment securities at amortized cost:						
Government securities	—	214	434	1,153	16,169	17,970
Private bonds	—	23	51	65	1,921	2,060
Loans and receivables:						
Due from BSP	13,356	—	—	—	—	13,356
Due from other banks	90	2,906	1	—	—	2,997
Interbank loans receivable	—	260	50	—	—	310
Receivables from customers:						
Corporate	1,544	15,351	8,460	1,021	11,334	37,710
Consumer	1,619	516	1,632	2,777	7,666	14,210
	₱16,609	₱19,570	₱10,628	₱5,016	₱37,090	₱88,913
Financial liabilities						
Deposit liabilities:						
Demand	₱15,464	₱—	₱—	₱—	₱—	₱15,464
Savings	6,944	—	—	—	—	6,944
Time	20	33,303	2,130	3,747	2,077	41,277
Bills payable:						
Private firms and individuals	—	10,026	85	—	—	10,111
Banks and other financial institutions	—	—	8	—	—	8
Outstanding acceptances	34	—	—	—	—	34
Manager's checks	300	—	—	—	—	300
Accrued interest payable	18	54	3	—	—	75
Accrued other expenses	16	245	—	—	—	261
Other liabilities:						
Accounts payable	196	—	—	—	—	196
Refundable security deposits	—	—	29	—	111	140
Due to the Treasurer of the Philippines	—	24	—	—	—	24
	₱22,992	₱43,652	₱2,255	₱3,747	₱2,188	₱74,834

*Including non-performing loans and receivables

	Parent Company					
	2017					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱–	₱2,740	₱–	₱–	₱–	₱2,740
Investment securities at amortized cost:						
Government securities	–	204	892	880	18,241	20,217
Private bonds	–	19	64	83	1,822	1,988
Loans and receivables:						
Due from BSP	15,279	–	–	–	–	15,279
Due from other banks	–	966	–	–	–	966
Interbank loans receivable	–	485	50	–	–	535
Receivables from customers:						
Corporate	1,463	17,359	6,843	2,037	15,914	43,616
Consumer	1,407	318	1,781	2,377	12,576	18,459
	₱18,149	₱22,091	₱9,630	₱5,377	₱48,553	₱103,800
Financial liabilities						
Deposit liabilities:						
Demand	₱19,480	₱–	₱–	₱–	₱–	₱19,480
Savings	7,791	–	–	–	–	7,791
Time	1	32,656	5,063	2,881	1,604	42,205

(Forward)



	Parent Company					Total
	2017					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	
Bills payable:						
Private firms and individuals	₱—	₱7,759	₱55	₱—	₱—	₱7,814
Banks and other financial institutions	—	4,765	—	—	—	4,765
Outstanding acceptances	64	—	—	—	—	64
Manager’s checks	427	—	—	—	—	427
Accrued interest payable	—	79	4	—	—	83
Accrued other expenses	—	269	—	—	—	269
Other liabilities:						
Accounts payable	303	—	—	—	—	303
Refundable security deposits	—	—	51	1	115	167
Due to the Treasurer of the Philippines	—	31	—	—	—	31
	₱28,066	₱45,559	₱5,173	₱2,882	₱1,719	₱83,399

*Including non-performing loans and receivables

	Parent Company					
	2016					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱—	₱300	₱—	₱—	₱—	₱300
Investment securities at amortized cost:						
Government securities	—	214	434	1,153	16,169	17,970
Private bonds	—	23	51	65	1,921	2,060
Loans and receivables:						
Due from BSP	13,277	—	—	—	—	13,277
Due from other banks	—	2,631	—	—	—	2,631
Interbank loans receivable	—	260	50	—	—	310
Receivables from customers:						
Corporate	1,544	15,351	8,460	1,021	11,334	37,710
Consumer	1,248	255	946	1,542	7,666	11,657
	₱16,069	₱19,034	₱9,941	₱3,781	₱37,090	₱85,915
Financial liabilities						
Deposit liabilities:						
Demand	₱15,572	₱—	₱—	₱—	₱—	₱15,572
Savings	6,400	—	—	—	—	6,400
Time	2	32,534	1,904	3,149	2,077	39,666
Bills payable:						
Private firms and individuals	—	10,026	85	—	—	10,111
Banks and other financial institutions	—	—	8	—	—	8
Outstanding acceptances	34	—	—	—	—	34
Manager's checks	300	—	—	—	—	300
Accrued interest payable	—	50	2	3	3	58
Accrued other expenses	—	256	—	—	—	256
Other liabilities:						
Accounts payable	182	—	—	—	—	182
Refundable security deposits	—	—	29	—	111	140
Due to the Treasurer of the Philippines	—	24	—	—	—	24
	₱22,490	₱42,890	₱2,028	₱3,152	₱2,191	₱72,751

*Including non-performing loans and receivables



The tables below show the contractual expiry of the Group's and the Parent Company's commitments and contingent liabilities as of December 31, 2017 and 2016 (amounts in millions):

	2017				Total
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	
Unused Commercial LC:					
Standby LC	₱1,034	₱957	₱—	₱84	₱2,075
Sight LC outstanding	401	—	—	—	401
Usance LC outstanding	40	47	—	—	87
Outstanding shipping guarantees	945	—	—	—	945
	₱2,420	₱1,004	₱0	₱84	₱3,508

	2016				Total
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	
Unused Commercial LC:					
Standby LC	₱1,596	₱170	₱457	₱—	₱2,223
Sight LC outstanding	269	9	—	—	278
Usance LC outstanding	16	96	5	—	117
Outstanding shipping guarantees	1,241	—	—	—	1,241
	₱3,122	₱275	₱462	₱—	₱3,859

Market Risk Management

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes. The Group's market risk originates from the Parent Company's holdings of foreign exchange instruments, debt securities, equity securities and derivatives.

Value-at-Risk (VaR)

VaR is a statistical estimate of potential loss given prevailing market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, a given "confidence level" over a specified time horizon. VaR is used to alert senior management whenever the potential for losses in the Parent Company's portfolios exceeds the VaR limit. This allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with the Parent Company's risk philosophy and appetite.

In April 2014, the Parent Company commenced using Bloomberg's Portfolio VaR (PORT) module in its VaR computation. Bloomberg's PORT run on a Parametric VaR model whose data set contains one year of historical prices and a daily update of its variance/covariance matrix. In accordance with the BSP standards, the Parent Company uses a 99.00% confidence level and a 10-day defeasance period. This means, that statistically, the Parent Company's losses on trading operations will exceed VaR on at least 1 out of 100 trading business days.

The Market and Liquidity Risk Management Unit (MLRMU) runs VaR on a daily basis, monitors the VaR against the BOD approved VaR limit and submits Daily VaR Reports to concerned division/group/segment heads.

To verify the validity of the VaR model used, the Treasury Operations Division performs quarterly back testing to examine how frequently actual daily losses exceeds the daily VaR. Backtesting results are reviewed by the head of Treasury Operations Division. Exceptions, if any, are reported to the ROC and the BOD.



Starting February 2015, changes were made in the VaR computation for USD ROPs to take into account foreign currency risk between US dollar and Peso.

A summary of the VaR position of USD fixed income exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate and Foreign Exchange	
	USD Bonds from January to December 2017 (in ₱ millions)	USD Bonds from January to December 2016 (in ₱ millions)
31 December	20.74	4.11
Average Daily	14.58	62.87
Highest	46.77	284.65
Lowest	1.11	4.05

A summary of the VaR position of Peso fixed income exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate	
	Peso Bonds 2017 (in ₱ millions)	Peso Bonds 2016 (in ₱ millions)
31 December	35.66	11.91
Average Daily	36.08	60.73
Highest	116.85	201.77
Lowest	0.00	2.55

Stress testing

Since VaR is designed to describe risk in normal market conditions (that is, 99.00% of the time), it may not capture potential losses in the extreme that occur following movements outside the prevailing market trend. Stress testing is done to address extreme market conditions.

The Parent Company performs stress testing on its foreign currency trading position and on its outstanding investment portfolios. Stress testing is a technique used to determine the impact on earnings of above position/portfolios from conditions or scenarios deemed “extreme” but plausible. Stress testing is used to inform senior management as to where vulnerabilities in the Parent Company’s portfolio actually lie.

This helps the Parent Company to evaluate its tolerance for risks and understand the combinations of risks that can produce large losses.

Unlike VaR, which reflects price behavior in everyday markets, stress tests simulate portfolio performance during abnormal market periods. Accordingly, these provide information about risks falling outside those typically captured by the VaR framework. Hence, losses resulting from stress tests are larger than the losses predicted by the VaR model.

The Parent Company’s Market & Liquidity Risk Manager performs the stress testing of traded securities using uniform set of market stress shocks as prescribed by the BSP under their Uniform Stress Testing Program for Banks. The stress testing is conducted semi-annually and its results are reported to the ROC and BOD.

To identify possible episodes of stress in the domestic financial market, MLRMU employs the Citi Early Warning Signal Risk Index – Philippines that measures stress in economic and financial variables with a view of predicting weakness in local currencies. A reading above 0.5 means that



stress is above average and a reading below 0.5 means that stress is below average. The risk index level is reported monthly to ALCO and quarterly to ROC.

Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in the interest rates will affect future cash flows or the fair value of financial instruments. The Group follows a prudent policy on managing its assets and liabilities so as to ensure that the exposure to fluctuations in interest rates is kept within acceptable limits.

A substantial proportion of the total loan portfolio is for a term of less than one year, and the majority of the balance of its medium-term portfolio is on a floating-rate basis. As of December 31, 2017 and 2016, 51.27% and 63.75%, respectively, of the Group's total loan portfolio comprised floating rate loans which are repriced periodically by reference to the transfer pool rate that reflects the Group's internal cost of funds. As a result of these factors, the Group's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Group, in keeping with banking industry practice, aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers. Interest is paid on substantial portion of demand accounts which constituted 28.21% and 25.44%, respectively, of total deposits of the Group as of December 31, 2017 and 2016, respectively, and pays a variable interest rate of 0.10% to 0.50% and fixed rate of 0.10%. Rates on savings accounts and time deposit accounts, which constituted 11.78% and 60.80%, respectively, of total deposits as of December 31, 2017 and 11.00% and 64.51%, respectively, of total deposits as of December 31, 2016, are set by different criteria. Savings account rates are set by reference to prevailing market rates, while rates on time deposits and special savings accounts are usually priced by reference to rates applicable to prevailing rates on Philippine Treasury Bills and other money market instruments or, in the case of foreign currency deposits, Singapore Interbank Offer Rate and other benchmark dollar deposit rates in the Asian and international money markets with similar maturities.

The following tables provide for the average EIR by period of maturity or repricing of the Group and the Parent Company as of December 31, 2017 and 2016:

	Consolidated					
	2017			2016		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated assets						
Due from banks	0.69%	—	—	1.15%	—	—
Interbank loans	0.65%	0.60%	—	0.88%	—	—
Loans and receivables	19.41%	22.93%	17.19%	20.12%	21.17%	17.89%
Peso-denominated liabilities						
Deposit liabilities	0.61%	2.28%	4.78%	1.12%	1.68%	5.46%
Bills payable	2.10%	2.24%	—	1.91%	1.74%	—
Foreign currency-denominated assets						
Due from banks	0.22%	—	—	0.18%	—	—
Interbank loans	0.70%	—	—	0.40%	—	—
Loans and receivables	3.55%	5.94%	5.27%	5.64%	5.68%	4.49%
Foreign currency-denominated liability						
Deposit liabilities	0.65%	1.29%	2.38%	0.87%	1.46%	2.37%



	Parent Company					
	2017			2016		
	Less than 3 Months	Less than 3 Months	Less than 3 Months	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated assets						
Due from banks	0.12%	—	—	0.38%	—	—
Interbank loans	0.65%	0.60%	—	0.88%	—	—
Loans and receivables	18.86%	20.54%	19.21%	13.75%	25.12%	21.75%
Peso-denominated liabilities						
Deposit liabilities	0.25%	2.46%	3.28%	0.80%	0.87%	3.41%
Bills payable	2.14%	2.33%	—	1.91%	1.74%	—
Foreign currency-denominated assets						
Due from banks	0.22%	—	—	0.18%	—	—
Interbank loans	0.70%	—	—	0.40%	—	—
Loans and receivables	3.55%	5.94%	5.27%	5.64%	5.68%	4.49%
Foreign currency-denominated liability						
Deposit liabilities	0.65%	1.29%	2.38%	0.87%	1.46%	2.37%

The Group also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Group's interest-related income and expenses.

The method by which the Group measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of interest rate analysis. This analysis provides the Group with a measure of the impact of changes in interest rates on the actual portfolio, that is, the risk exposure of future accounting income. The repricing gap is calculated by distributing the financial assets and financial liabilities into tenor buckets according to the time remaining to maturity or next repricing date and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.



The following tables set forth the asset-liability gap position of the Group and the Parent Company as of December 31, 2017 and 2016 (amounts in millions):

Consolidated						
2017						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱1,166	₱—	₱—	₱—	₱—	₱1,166
Interbank loans receivable	535	—	—	—	—	535
Financial assets at FVTPL	999	—	—	—	1,741	2,740
Investment securities at amortized cost	—	5	403	203	14,806	15,417
Loans and receivables	6,458	11,036	7,086	2,804	25,969	53,353
	9,158	11,041	7,489	3,007	42,516	73,211
Liabilities						
Deposit liabilities	50,191	10,639	5,076	3,110	1,720	70,736
Bills payable	11,340	1,172	55	—	—	12,567
	61,531	11,811	5,131	3,110	1,720	83,303
Asset-liability gap	(₱52,373)	(₱770)	₱2,358	(₱103)	₱40,796	(₱10,092)

Consolidated						
2016						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱2,997	₱—	₱—	₱—	₱—	₱2,997
Interbank loans receivable	260	—	50	—	—	310
Financial assets at FVTPL	—	—	—	—	300	300
Investment securities at amortized cost	—	20	49	412	12,654	13,135
Loans and receivables	9,115	9,101	8,114	1,337	18,422	46,089
	12,372	9,121	8,213	1,749	31,376	62,831
Liabilities						
Deposit liabilities	47,242	8,400	1,998	3,007	2,499	63,146
Bills payable	—	10,015	84	—	—	10,099
	47,242	18,415	2,082	3,007	2,499	73,245
Asset-liability gap	(₱34,870)	(₱9,294)	₱6,131	(₱1,258)	₱28,877	(₱10,414)



Parent Company						
2017						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱966	₱—	₱—	₱—	₱—	₱966
Interbank loans receivable	535	—	—	—	—	535
Financial assets at FVTPL	999	—	—	—	1,741	2,740
Investment securities at amortized cost	—	5	403	203	14,806	15,417
Loans and receivables	6,441	11,035	7,059	2,685	24,400	51,620
	8,941	11,040	7,462	2,888	40,947	71,278
Liabilities						
Deposit liabilities	49,345	10,458	4,915	2,789	1,538	69,045
Bills payable	11,340	1,172	55	—	—	12,567
	60,685	11,630	4,970	2,789	1,538	81,612
Asset-liability gap	(₱51,744)	(₱590)	₱2,492	₱99	₱39,409	(₱10,334)

Parent Company						
2016						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱2,631	₱—	₱—	₱—	₱—	₱2,631
Interbank loans receivable	260	—	50	—	—	310
Financial assets at FVTPL	—	—	—	—	300	300
Investment securities at amortized cost	—	20	49	412	12,654	13,135
Loans and receivables	8,714	9,093	7,952	1,223	17,322	44,304
	11,605	9,113	8,051	1,635	30,276	60,680
Liabilities						
Deposit liabilities	46,383	8,061	1,771	2,967	2,017	61,199
Bills payable	—	10,015	84	—	—	10,099
	46,383	18,076	1,855	2,967	2,017	71,298
Asset-liability gap	(₱34,778)	(₱8,963)	₱6,196	(₱1,332)	₱28,259	(₱10,618)

The following tables demonstrate the sensitivity of the cumulative net position of risk-sensitive assets and risk-sensitive liabilities to a reasonable change in interest rates, with all other variables held constant (amounts in millions):

2017				
Changes in Interest Rates (in Basis Points)				
	+50	-50	+100	-100
Changes in interest rates (in basis points)				
Change in annualized net interest income	(₱66.46)	₱66.46	(₱132.93)	₱132.93
2016				
Changes in Interest Rates (in Basis Points)				
	+50	-50	+100	-100
Changes in interest rates (in basis points)				
Change in annualized net interest income	(₱114.44)	₱114.44	(₱228.87)	₱228.87



The table below shows the Group's and the Parent Company's different market risk-weighted assets using the standardized approach in accordance with BSP Circular No. 538:

Type of Market Risk Exposure	2017	2016
Interest rate exposures	₱663,226	₱248,411
Foreign exchange exposures	104,679	296,862
	₱767,905	₱545,273

Foreign Currency Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency-deposits in the Parent Company's FCDU account made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

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

The Parent Company's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Parent Company believes that its profile of foreign currency exposure on its assets and liabilities is within limits for a financial institution engaged in the type of business in which the Parent Company is engaged in.

The ERMG uses VaR, Foreign Exchange Sensitivity Testing, and Foreign Exchange Stress Testing to measure risk inherent to the Parent Company's foreign currency net exposures. In assessing the foreign currency risk, the Parent Company employs a pre-defined key risk indicator under Market Risk Assessment Matrix to determine the level of risk (for example, Low Risk, Moderate Risk, High Risk) the results of which are reported to the ROC on a quarterly basis.

The table summarizes the Group's and Parent Company's exposure to foreign exchange risk as of December 31, 2017 and 2016. Included in the table are the Group's and the Parent Company's assets and liabilities at carrying amounts, categorized by currency (amounts in Peso equivalent):

	2017			2016		
	USD	Others*	Total	USD	Others*	Total
Assets						
Cash on hand	₱2,415	₱175	₱2,590	₱2,415	₱175	₱2,590
Due from other banks	74,248	63,682	137,930	4,770	39,202	43,972
Interbank loans receivable	62,413	—	62,413	49,720	—	49,720
Financial assets at amortized cost	—	240,063	240,063	—	206,984	206,984
Loans and receivables:						
Corporate loans	213,091	16,584	229,675	148,659	4,430	153,089
Accrued interest receivable	263	3,519	3,782	471	3,004	3,475
Other assets	76	129	205	2,885	112	2,997
	352,506	324,152	676,658	208,920	253,907	462,827
Liabilities						
Deposit	—	235,638	235,638	—	10,895	10,895
Outstanding acceptances	56,417	7,669	64,086	29,926	4,430	34,356
Other liabilities:						
Others	2,499	1	2,500	71	—	71
	58,916	243,308	302,224	29,997	15,325	45,322
Net exposure	₱293,590	₱80,844	₱374,434	₱178,923	₱238,582	₱417,505

*Includes Euro, Australian Dollar, Japanese Yen, Swiss Franc, Canadian Dollar, Singapore Dollar



The tables below indicate the exposure of the Group (excluding the Parent Company's FCDU) to USD on its non-trading monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the base currency rate against the USD, with all other variables held constant, on the statement of income and statement of comprehensive income. A negative amount in the tables reflects a potential net reduction in income or OCI, while a positive amount reflects a potential net increase. The Group's exposure in currencies other than USD is minimal.

2017				
Changes in Foreign Exchange Rates				
Changes in foreign exchange rates	+3.00%	-3.00%	+4.00%	-4.00%
Change in annualized net income	₱8,808	(₱8,808)	₱11,744	(₱11,744)

2016				
Changes in Foreign Exchange Rates				
Changes in foreign exchange rates	+3.00%	-3.00%	+4.00%	-4.00%
Change in annualized net income	₱5,368	(₱5,368)	₱7,157	(₱7,157)

As of December 31, 2017 and 2016, there is no impact on the Group's OCI other than those already affecting profit or loss.

Equity Price Risk Management

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Parent Company holds a minimal amount of equity securities, hence, any changes to equity prices are deemed to not significantly affect its financial performance.

Operational Risk

The Group uses the Basic Indicator Approach in computing Operational Risk in accordance with BSP Circular No. 538 (amounts in millions) as reported to the BSP:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Average Gross Income (Previous 3 Years)	₱3,354	₱2,957	₱3,121	₱2,835
Capital Charge (Average Gross Income times 18.75% ^(a))	629	554	585	532
Risk Weighted Asset (Capital Charge times 10)	₱6,289	₱5,544	₱5,851	₱5,316

(a) Equivalent to adjusted capital charge of 15% of 125% to be consistent with required minimum Capital Adequacy Ratio of 10%

6. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments are as follow:

Branch Banking Group (formerly Prosperity Banking Segment) – handles the individual customers' deposits, and provides overdrafts and fund transfer facilities;

Corporate Banking Group (formerly Enterprise Banking) – manages the relationship with the corporate and institutional clients of the Group with loans and credit facilities as the primary product;



Treasury Segment – is responsible for the management of the Group’s balance sheet and liquidity position. It also handles the Group’s investments in securities, both local and abroad, as well as placements and acceptances with other banks;

Consumer Finance Segment (formerly Convenience Banking Segment) – provides the retail client’s credit requirements for the purchase of auto, home and personal loan requirements; and

Trust and Wealth Management Segment (formerly Trust Group) – is the segment that functions as the Trustee or Investment Manager for both individual and corporate accounts.

Segment’s resources, both assets and liabilities, are those operating resources that are employed by a segment in its operating activities and that either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net of interest expense as management primarily relies on net interest revenue as a performance measure, not the gross interest income and expense.

No revenue from transactions with a single external customer or counterparty amounted to 10.00% or more of the Group’s total revenue for 2017, 2016 and 2015.

The Group’s revenue-producing assets are located in one geographical location, which is the Philippines, therefore, geographical segment information is no longer presented.

For management purposes, business segment information provided to the BOD is based on Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS.

The following tables present income and profit and certain asset and liability information regarding the Group’s operating segments as of and for the years ended December 31, 2017, 2016 and 2015:

	Consolidated								
	2017								
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Unallocated	RAP	RAP-PFRS Adjustments/ Others	Total
Revenue									
Revenue, net of interest expense									
Third party	(P543,621)	P2,087,067	P330,591	P1,150,309	P1,508	P110,672	P3,136,526	P114,631	P3,251,157
Intersegment	1,424,346	(1,084,348)	(154,667)	(335,374)	(2,144)	152,187	—	—	—
Other operating income	38,826	14,638	35,042	39,980	15,511	663,685	807,682	333,958	1,141,640
Total operating income	919,551	1,017,357	210,966	854,915	14,875	926,544	3,944,208	448,589	4,392,797
Compensation and fringe benefits	290,771	80,755	50,773	223,730	10,028	508,209	1,164,266	(1,314)	1,162,952
Taxes and licenses	168,858	93,996	54,958	84,515	1,076	54,136	457,539	(97)	457,442
Occupancy and other equipment-related costs	159,610	21,920	816	28,522	1,772	11,739	224,379	(28)	224,351
Depreciation and amortization	114,424	3,552	1,912	26,723	694	313,424	460,729	(133,814)	326,915
Provision for (reversal of) credit and impairment losses	(7,629)	164,017	—	214,962	—	(69,372)	301,978	36,517	338,495
Other operating expenses	264,884	52,206	80,766	134,285	2,781	305,986	840,908	393	841,301
Net operating income (loss) before income tax	(P71,367)	P600,911	P21,741	P142,178	(P1,476)	(P197,578)	P494,409	P546,932	P1,041,341
Segment results									
Net interest income (loss)	P798,532	P826,189	P190,484	P733,401	(P636)	P260,365	P2,808,335	P93,223	P2,901,558
Trading and securities gain (loss) - net	—	—	(14,569)	—	—	—	(14,569)	1,326	(13,243)
Rent income	—	—	—	—	—	563,245	563,245	14	563,259
Service charges, fees, and commissions	82,193	176,530	9	81,534	—	2,494	342,760	20,082	362,842
Foreign exchange gain - net	22,106	7,215	40,465	—	—	—	69,786	1	69,787
Profit (loss) from assets sold	—	—	—	6,604	—	15,935	22,539	(10,586)	11,953
Income from trust operations	—	—	—	—	15,404	—	15,404	—	15,404

(Forward)



Consolidated 2017									
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Unallocated	RAP	RAP-PFRS Adjustments/ Others	Total
Fair value gain from investment properties	P-	P-	P-	P-	P-	P-	P-	P353,992	P353,992
Gain on assets exchange	-	-	-	-	-	-	-	5,487	5,487
Miscellaneous	16,720	7,423	(5,423)	33,376	107	84,505	136,708	(14,950)	121,758
Total operating income	919,551	1,017,357	210,966	854,915	14,875	926,544	3,944,208	448,589	4,392,797
Compensation and fringe benefits	290,771	80,755	50,773	223,730	10,028	508,209	1,164,266	(1,314)	1,162,952
Taxes and licenses	168,858	93,996	54,958	84,515	1,076	54,136	457,539	(97)	457,442
Occupancy and other equipment-related costs	159,610	21,920	816	28,522	1,772	11,739	224,379	(28)	224,351
Depreciation and amortization	114,424	3,552	1,912	26,723	694	313,424	460,729	(133,814)	326,915
Provision for (reversal of) credit and impairment losses	(7,629)	164,017	-	214,962	-	(69,372)	301,978	36,517	338,495
Other operating expenses	264,884	52,206	80,766	134,285	2,781	305,986	840,908	393	841,301
Total operating expenses	990,918	416,446	189,225	712,737	16,351	1,124,122	3,449,799	(98,343)	3,351,456
Segment profit (loss)	(71,367)	600,911	21,741	142,178	(1,476)	(197,578)	494,409	546,932	1,041,341
Provision for income tax	-	(8,918)	(130,098)	(11,945)	-	(57,673)	(208,634)	(114,005)	(322,639)
Non-controlling interests in net income of subsidiaries	-	-	-	(558)	-	-	(558)	555	(3)
Net income (loss)	(P71,367)	P591,993	(P108,357)	P129,675	(P1,476)	(P255,251)	P285,217	P433,482	P718,699
Segment assets									
Property and equipment	P445,005	P-	P-	P62,725	P-	P1,220,945	P1,728,675	(P255,087)	P1,473,588
Investment properties	-	-	-	72,857	-	3,175,210	3,248,067	3,188,066	6,436,133
Unallocated assets	11,505,907	39,065,373	25,621,908	13,816,110	70,712	4,089,296	94,169,306	(2,858,777)	91,310,529
Total segment assets	P11,950,912	P39,065,373	P25,621,908	P13,951,692	P70,712	P8,485,451	P99,146,048	P74,202	P99,220,250
Total segment liabilities	P60,927,417	P4,108,878	P16,782,805	P1,870,225	P-	P2,461,322	P86,150,647	P139,239	P86,289,886

Consolidated 2016									
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Unallocated	RAP	RAP-PFRS Adjustments/ Others	Total
Revenue									
Revenue, net of interest expense									
Third party	(P508,091)	P1,783,189	P452,916	P1,202,743	P1,363	P234,329	P3,166,449	P40,179	P3,206,628
Intersegment	1,152,228	(900,695)	(169,670)	(194,566)	(2,155)	114,858	-	-	-
Other operating income	14,345	6,316	5,178	24,933	16,987	530,855	598,614	246,529	845,143
Total operating income	658,482	888,810	288,424	1,033,110	16,195	880,042	3,765,063	286,708	4,051,771
Compensation and fringe benefits	295,514	77,682	50,776	216,894	11,368	505,531	1,157,765	23,408	1,181,173
Taxes and licenses	150,135	93,955	60,114	82,259	1,462	18,693	406,618	(147)	406,471
Occupancy and other equipment-related costs	174,420	8,439	835	25,768	1,108	(23,917)	186,653	(2,241)	184,412
Depreciation and amortization	134,990	3,102	2,154	45,003	1,347	275,905	462,501	(116,923)	345,578
Provision for credit and impairment losses	-	112,639	-	215,583	-	2,159	330,381	147,587	477,968
Other operating expenses	235,477	51,862	82,246	180,720	2,710	353,681	906,696	(85,228)	821,468
Net operating income (loss) before income tax	(P332,054)	P541,131	P92,299	P266,883	(P1,800)	(P252,010)	P314,449	P320,252	P634,701
Segment results									
Net interest income (loss)	P588,254	P686,340	P238,384	P877,532	(P792)	P128,207	P2,517,925	P78,029	P2,595,954
Trading and securities gain (loss) - net	-	-	44,774	-	-	201,571	246,345	(198,006)	48,339
Rent income	-	-	-	1,866	-	474,105	475,971	(1,758)	474,213
Service charges, fees, and commissions	55,883	196,154	88	130,645	-	19,409	402,179	(38,544)	363,635
Foreign exchange gain - net	-	-	11,474	-	-	-	11,474	-	11,474
Profit (loss) from assets sold	-	-	-	1,765	-	25,982	27,747	(35,063)	(7,316)
Income from trust operations	-	-	-	-	16,864	-	16,864	-	16,864
Fair value gain from investment properties	-	-	-	-	-	-	-	286,404	286,404
Gain on reclassification of investment securities from amortized cost to FVTPL	-	-	-	-	-	-	-	198,700	198,700
Gain on assets exchange	-	-	-	-	-	-	-	12,170	12,170
Miscellaneous	14,345	6,316	(6,296)	21,302	123	30,768	66,558	(15,224)	51,334
Total operating income	658,482	888,810	288,424	1,033,110	16,195	880,042	3,765,063	286,708	4,051,771
Compensation and fringe benefits	295,514	77,682	50,776	216,894	11,368	505,531	1,157,765	23,408	1,181,173
Taxes and licenses	150,135	93,955	60,114	82,259	1,462	18,693	406,618	(147)	406,471
Occupancy and other equipment-related costs	174,420	8,439	835	25,768	1,108	(23,917)	186,653	(2,241)	184,412
Depreciation and amortization	134,990	3,102	2,154	45,003	1,347	275,905	462,501	(116,923)	345,578

(Forward)



Consolidated 2016									
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Unallocated	RAP	RAP-PFRS Adjustments/ Others	Total
Provision for credit and impairment losses	P=	P112,639	P=	P215,583	P=	P2,159	P330,381	P147,587	P477,968
Other operating expenses	235,477	51,862	82,246	180,720	2,710	353,681	906,696	(85,228)	821,468
Total operating expenses	990,536	347,679	196,125	766,227	17,995	1,132,052	3,450,614	(33,544)	3,417,070
Segment profit (loss)	(332,054)	541,131	92,299	266,883	(1,800)	(252,010)	314,449	320,252	634,701
Provision for income tax	—	(1,479)	(139,681)	(32,107)	—	(45,075)	(218,342)	(16,479)	(234,821)
Non-controlling interests in net income of subsidiaries	—	—	—	161	—	—	161	11	172
Net income (loss)	(P332,054)	P539,652	(P47,382)	P234,937	(P1,800)	(P297,085)	P96,268	P303,784	P400,052
Segment assets									
Property and equipment	P542,402	P=	P=	P113,287	P=	P1,314,184	P1,969,873	(P320,829)	P1,649,044
Investment properties	—	—	—	64,255	—	3,707,050	3,771,305	2,254,105	6,025,410
Unallocated assets	10,723,618	34,323,086	22,905,776	9,347,353	69,413	3,089,160	80,458,406	(1,634,127)	78,824,279
Total segment assets	P11,266,020	P34,323,086	P22,905,776	P9,524,895	P69,413	P8,110,394	P86,199,584	P299,149	P86,498,733
Total segment liabilities	P50,140,014	P34,518	P21,569,914	P=	P=	P2,174,145	P73,918,591	P1,798,406	P75,716,997

Consolidated 2015									
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Unallocated	RAP	RAP-PFRS Adjustments/ Others	Total
Revenue									
Revenue, net of interest expense									
Third party	P2,003,627	(P470,838)	P9,212	P736,644	P7,914	P45,968	P2,332,527	(P6,559)	P2,325,968
Intersegment	1,301,985	(880,451)	(217,788)	(230,896)	4,166	22,984	—	—	—
Other operating income	(1,188,320)	1,146,093	246,533	382,623	5,283	393,886	986,098	922,799	1,908,897
Total operating income	2,117,292	(205,196)	37,957	888,371	17,363	462,838	3,318,625	916,240	4,234,865
Compensation and fringe benefits	399,162	89,388	29,309	243,233	25,431	556,563	1,343,086	1,072	1,344,158
Taxes and licenses	174,228	75,720	58,745	60,963	1,461	47,411	418,528	17,249	435,777
Occupancy and other equipment-related costs	159,338	2,303	1,048	20,965	903	31,155	215,712	1,979	217,691
Depreciation and amortization	106,057	5,258	2,203	37,819	2,188	242,132	395,657	(105,126)	290,531
Provision for (reversal of) credit and impairment losses	—	62,737	—	125,216	—	(135,014)	52,939	390,863	443,802
Other operating expenses	262,020	39,918	51,676	288,415	4,686	303,989	950,704	(137,816)	812,888
Net operating income (loss) before income tax	P1,016,487	(P480,520)	(P105,024)	P111,760	(P17,306)	(P583,398)	(P58,001)	P748,019	P690,018
Segment results									
Net interest income (loss)	P2,003,627	(P470,838)	P9,212	P736,644	P7,914	P45,968	P2,332,527	(P6,559)	P2,325,968
Trading and securities loss - net	—	—	(13,552)	—	—	—	(13,552)	(26,913)	(40,465)
Rent income	—	—	—	300	—	403,948	404,248	(176)	404,072
Service charges, fees, and commissions	94,609	245,551	25	116,307	—	1	456,493	(29,937)	426,556
Foreign exchange gain (loss) - net	5,786	13,197	(8,029)	45	(19)	—	10,980	(780)	10,200
Profit (loss) from assets sold	—	—	—	854	—	6,314	7,168	(1,833)	5,335
Income from trust operations	5,344	1,410	2,079	—	9,468	—	18,301	(1)	18,300
Fair value gain from investment properties	—	—	—	—	—	—	—	941,728	941,728
Gain on disposal of investment securities at amortized cost	—	—	48,174	—	—	—	48,174	—	48,174
Gain on assets exchange	—	—	—	—	—	—	—	3,702	3,702
Miscellaneous	7,926	5,484	48	34,221	—	6,607	54,286	37,009	91,295
Total operating income	2,117,292	(205,196)	37,957	888,371	17,363	462,838	3,318,625	916,240	4,234,865
Compensation and fringe benefits	399,162	89,388	29,309	243,233	25,431	556,563	1,343,086	1,072	1,344,158
Taxes and licenses	174,228	75,720	58,745	60,963	1,461	47,411	418,528	17,249	435,777
Occupancy and other equipment-related costs	159,338	2,303	1,048	20,965	903	31,155	215,712	1,979	217,691
Depreciation and amortization	106,057	5,258	2,203	37,819	2,188	242,132	395,657	(105,126)	290,531
Provision for (reversal of) credit and impairment losses	—	62,737	—	125,216	—	(135,014)	52,939	390,863	443,802
Other operating expenses	262,020	39,918	51,676	288,415	4,686	303,989	950,704	(137,816)	812,888
Total operating expenses	1,100,805	275,324	142,981	776,611	34,669	1,046,236	3,376,626	168,221	3,544,847
Segment profit (loss)	1,016,487	(480,520)	(105,024)	111,760	(17,306)	(583,398)	(58,001)	748,019	690,018
Provision for income tax	(29)	(1,502)	(138,142)	(15,819)	—	(39,920)	(195,412)	(290,924)	(486,336)
Non-controlling interest in net income of subsidiaries	—	—	—	—	—	1,816	1,816	(2,197)	(381)
Net income (loss)	P1,016,458	(P482,022)	(P243,166)	P95,941	(P17,306)	(P621,502)	(P251,597)	P454,898	P203,301
Segment assets									
Property and equipment	P586,891	P=	P=	P115,436	P=	P1,396,578	P2,098,905	(P308,103)	P1,790,802
Investment properties	—	—	—	67,844	—	3,766,739	3,834,583	1,864,428	5,699,011
Unallocated assets	10,612,987	26,175,773	22,879,852	7,277,161	72,269	4,546,759	71,564,801	(2,978,298)	68,586,503
Total segment assets	P11,199,878	P26,175,773	P22,879,852	P7,460,441	P72,269	P9,710,076	P77,498,289	(P1,421,973)	P76,076,316
Total segment liabilities	P49,447,498	P43,578	P14,001,994	P2,080,091	P100,000	P2,934,254	P68,607,415	(P1,455,122)	P67,152,293



Net operating gain (loss) after tax reported to the BOD, which is based on RAP, amounted to ₱286.34 million, ₱96.27 million and (₱251.60 million) in 2017, 2016 and 2015, respectively. The ‘RAP-PFRS adjustments/others’ pertain to differences in the accounting treatment for investment properties and related transactions and other adjustments.

The Group’s share in net income of an associate amounting to ₱0.69 million in 2017, ₱0.26 million in 2016 and ₱0.47 million in 2015 are included under ‘RAP-PFRS adjustments/others’.

7. Investments in Subsidiaries and an Associate

This account consists of investments in:

	% of Ownership			Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Subsidiaries:									
Cost:									
BDI	99.99	99.99	99.80	₱—	₱—	₱—	₱18,296	₱520,552	₱494,544
RBNI (merged with BDI in 2017)	—	96.32	96.32	—	—	—	—	393,297	348,297
PISAI	100.00	100.00	100.00	—	—	—	10,000	10,000	10,000
				—	—	—	928,296	923,849	852,841
Accumulated share in net income									
Balance at January 1				—	—	—	114,117	64,434	(6,313)
Share in net income				—	—	—	27,214	49,683	70,747
Balance at December 31				—	—	—	141,331	114,117	64,434
Accumulated share in OCI									
Balance at January 1				—	—	—	(1,941)	(1,232)	(808)
Share in change in remeasurement losses on defined benefit liability, net of tax				—	—	—	2,387	(709)	(1,210)
Share in change in revaluation increment in land, office units and condominium properties, net of tax				—	—	—	—	—	786
Balance at December 31				—	—	—	446	(1,941)	(1,232)
Accumulated dividends received									
Balance at January 1				—	—	—	(25,067)	—	—
Payment of dividends				—	—	—	—	(25,067)	—
Balance at December 31				—	—	—	(25,067)	(25,067)	—
				—	—	—	1,045,006	1,010,958	916,043
Associate - PBCom Finance									
Acquisition cost				2,000	2,000	2,000	2,000	2,000	2,000
Accumulated equity in net income									
Balance at January 1				10,376	10,113	9,645	10,376	10,113	9,645
Share in net income				692	263	468	692	263	468
Balance at December 31				11,068	10,376	10,113	11,068	10,376	10,113
				13,068	12,376	12,113	13,068	12,376	12,113
				₱13,068	₱12,376	₱12,113	₱1,058,074	₱1,023,334	₱928,156

The movements in the cost of investments in subsidiaries are as follows:

	BDI		RBNI		RBKI		PISAI	
	2017	2016	2017	2016	2017	2016	2017	2016
Balance at January 1	₱520,552	₱494,544	₱393,297	₱348,297	₱—	₱—	₱10,000	₱10,000
Acquisition of a subsidiary	—	—	—	—	4,447	—	—	—
Effect of three-way merger	397,744	—	(393,297)	—	(4,447)	—	—	—
Additional investment	—	26,008	—	45,000	—	—	—	—
Balance at December 31	₱918,296	₱520,552	₱—	₱393,297	₱—	₱—	₱10,000	₱10,000

Acquisition of RBKI

Prior to the acquisition of BDI by the Parent Company, BDI was in the process of consolidating RBKI, a bank that was owned by the then majority owners of BDI. As BDI was pushing for an earlier approval of the Parent Company’s buy-out, on August 7, 2014, BDI informed the BSP about its intention to withdraw its application for consolidation with RBKI and to just submit an application for merger with RBKI after the buy-out. On September 2, 2014, the Parent Company also informed the BSP about its commitment to undertake the merger of BDI and RBKI upon receipt of the BSP



approval for its acquisition of BDI. On January 30, 2015, the former shareholders of BDI confirmed in writing that the consideration from the Parent Company covered both the payment for its shares in BDI and RBKI. Thus, the final purchase price of ₱498.99 million shall be allocated between BDI and RBKI based on the relative fair values of their net assets. The consideration paid pertaining to RBKI of ₱4.45 million, which is recorded under 'Miscellaneous assets', is treated as deposit for future acquisition until regulatory approvals for the acquisition of RBKI are obtained, which will be simultaneously received with the approvals for the three-way merger application.

In 2015, the Parent Company's BOD in its regular meeting authorized the three-way merger of BDI, RBNI and RBKI, with BDI as the surviving entity, and the three rural banks entered into a Plan of Merger agreement.

On March 30 and December 11, 2017, the Monetary Board of the BSP and the SEC, respectively, approved the three-way merger.

On December 11, 2017, simultaneous with the SEC's approval on the three-way merger, the Parent Company acquired 100% shares of RBKI for ₱4.45 million. The acquisition provides the Parent Company the opportunity to expand its branch network and increase its presence in the consumer and small-medium entities sector.

The following table summarizes the final fair values of the assets acquired and liabilities assumed as of the acquisition date:

Assets	
Cash and other cash items	₱238
Due from BSP	800
Due from other banks	2,031
Loans and receivables	22,220
Property and equipment	272
Investment properties	1,305
Deferred tax assets	1,740
Other assets	124
	<u>28,730</u>
Liabilities	
Deposit liabilities	24,657
Bills payable and other borrowings	907
Accrued interest, taxes and other expenses	2,142
Other liabilities	347
	<u>28,053</u>
Net assets acquired	<u><u>₱677</u></u>

Goodwill from acquisition is computed as follows (see Note 15):

Consideration transferred*	₱4,447
Less: Fair value of net assets acquired	677
	<u><u>₱3,770</u></u>

** Part of the final purchase price for the acquisition of BDI in 2014, included in 'Miscellaneous assets'*

The goodwill arising from the acquisition can be attributed mainly to expected synergies and increase in geographical presence and customer base.



BDI

The investment cost amounting to ₱918.30 million includes the consideration for the acquisition in 2014 of ₱494.54 million, additional investment of ₱25.07 million in 2016 in the form of re-invested dividends, acquisition of non-controlling interests of ₱0.94 million in 2016 and reclassification in 2017 of investments in RBNI and RBKI aggregating to ₱397.74 million as a result of the merger of BDI, RBNI and RBKI, with BDI as the surviving entity, as discussed below.

Three-way merger of BDI, RBNI and RBKI

On October 28, 2015, the Parent Company's BOD in its regular meeting authorized the three-way merger of BDI, RBNI and RBKI, with BDI as the surviving entity.

On December 15, 2015, the three rural banks entered into a Plan of Merger agreement. Under the agreement, RBNI and RBKI will be merged to BDI upon the approval of the BSP, PDIC and SEC and upon the issuance by the SEC of a Certificate of Merger.

On December 28, 2015, an application for the three-way merger was submitted to the PDIC and BSP. On the same date, management withdrew the application for increase of RBNI's authorized capital stock to give way to the three-way merger.

On March 9, 2016, the application for the amendment of BDI's Articles of Incorporation and By-laws to increase its authorized capital stock was filed with the BSP.

In a letter dated August 5, 2016, pursuant to the Board Resolution No. 2016-07-131, PDIC informed the three rural banks that the consent to the proposed merger was granted.

On March 30 and December 11, 2017, the Monetary Board of the BSP and the SEC, respectively, approved the three-way merger.

As a result of the SEC's approval on the three-way merger on December 11, 2017, RBNI reacquired its own shares held by a minority shareholder for ₱1.09 million, which was treated as an equity transaction, and BDI, as the surviving entity, received all the assets and assumed all the liabilities of RBNI and RBKI. No shares of stock were issued by BDI for the aforementioned merger.

RBNI

The investment cost as of December 31, 2016 amounting to ₱393.30 million includes the consideration for the acquisition in 2014 of ₱48.30 million, the capital infusion of ₱300.00 million made by the Parent Company in 2014 as required by the BSP, and additional capital infusion of ₱45.00 million made in December 2016.

PISAI

The investment cost of ₱10.00 million represents the initial equity investment as approved by the BSP on May 2, 2014.

8. Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA)

Interbank loans receivable of the Group and the Parent Company is comprised of USD-denominated loans of ₱534.93 million (\$10.7 million) and ₱310.13 million (\$6.24 million) as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, there is no outstanding SPURA.



Interest income on the Group's and the Parent Company's interbank loans receivable and SPURA follows:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
SPURA	₱34,479	₱14,441	₱7,330	₱34,479	₱14,441	₱7,330
Interbank loans receivable	4,426	4,632	4,101	4,426	4,632	11,703
	₱38,905	₱19,073	₱11,431	₱38,905	₱19,073	₱19,033

Interbank loans receivable bears nominal annual interest rates ranging from 0.60% to 3.31% in 2017, 0.40% to 2.56% in 2016, and 2.56% to 6.25% in 2015 while SPURA bears nominal annual interest rates ranging from 3.00% to 3.15% in 2017, 3.00% to 4.00% in 2016, and 4.00% in 2015.

The Parent Company is not permitted to sell or repledge the related collateral on SPURA in the absence of default by the counterparty.

9. Financial Assets at Fair Value Through Profit or Loss (FVTPL)

Financial assets at FVTPL of the Group and the Parent Company consist of:

	2017	2016
Government securities	₱2,740,471	₱188,014
Private bonds	–	112,469
	₱2,740,471	₱300,483

As of December 31, 2017 and 2016, financial assets at FVTPL include net unrealized loss amounting to ₱5.74 million and ₱2.35 million, respectively. Net fair value gain or loss on financial assets at FVTPL is included in 'Trading and securities gain (loss) - net' in the statements of income (see Note 26).

10. Equity Securities at Fair Value through Other Comprehensive Income (FVTOCI)

As of December 31, 2017 and 2016, the Group's and the Parent Company's equity securities carried at FVTOCI consists of the following:

	2017	2016
Quoted equity securities	₱49,045	₱40,935
Unquoted equity securities	41,594	11,307
	₱90,639	₱52,242

The Parent Company has designated the above equity investments as at FVTOCI as these are held for long-term strategic purpose rather than for trading.

In 2017 and 2016, no dividends were declared on these equity investments and no cumulative gain or loss was transferred within equity.



The movements in net unrealized gain on equity securities recognized in OCI follow:

	2017	2016
Balance at January 1	₱33,621	₱25,831
Unrealized gains for the year	30,483	7,790
Balance at December 31	₱64,104	₱33,621

11. Investment Securities at Amortized Cost

As of December 31, 2017 and 2016, the Group's and the Parent Company's investment securities at amortized cost consist of the following:

	2017	2016
Government securities	₱13,789,737	₱11,510,454
Private bonds	1,627,464	1,625,040
	₱15,417,201	₱13,135,494

As of December 31, 2017, investment securities at amortized cost are comprised of the Parent Company's investment in Peso-denominated securities amounting to ₱11.88 billion and investment in foreign currency-denominated securities amounting to ₱3.54 billion (\$65.98 million and €3.99 million).

As of December 31, 2016, investment securities at amortized cost is comprised of the Parent Company's investment in Peso-denominated securities amounting to ₱10.11 billion and investment in foreign currency-denominated securities amounting to ₱3.03 billion (\$56.69 million and €3.98 million).

On October 1, 2016, the first day of the accounting period following the change in its business model for managing investments in debt securities (see Note 3), the Parent Company reclassified debt securities with aggregate face amount of US\$59.15 million (₱2,875.00 million) from the hold-to-collect portfolio to the trading portfolio and recognized a gain on reclassification of ₱198.70 million (US\$4.10 million) presented under 'Gain on reclassification of investment securities from amortized cost to fair value through profit or loss' in the statements of income. The change in business model was made to reflect the changes in the Group's strategic priorities and to address the requirements of BSP Circular No. 905.

In 2015, the Parent Company disposed Peso-denominated government securities carried at amortized cost with aggregate face amount of ₱600.00 million, which resulted in a gain of ₱48.17 million. The gain is presented as 'Gain on disposal of investment securities at amortized cost' in the statements of income. The disposal was made to realign the composition of Secondary Reserves as provided for under the Parent Company's Liquidity Contingency Plan.



12. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Receivables from customers:				
Corporate loans	₱38,391,852	₱34,288,555	₱38,391,852	₱34,288,555
Consumer loans	13,668,188	9,638,289	11,913,665	7,851,104
	52,060,040	43,926,844	50,305,517	42,139,659
Unearned discounts and capitalized interest	(182,647)	(107,672)	(107,845)	(36,811)
	51,877,393	43,819,172	50,197,672	42,102,848
Unquoted debt securities	2,811,827	3,157,373	2,811,827	3,157,373
Accrued interest receivable	814,596	780,121	781,494	748,220
Accounts receivable	251,137	761,351	234,657	753,815
Sales contracts receivable	168,093	179,588	155,333	167,408
	55,923,046	48,697,605	54,180,983	46,929,664
Less allowance for credit losses (Note 17)	(2,570,079)	(2,608,168)	(2,560,984)	(2,626,010)
	₱53,352,967	₱46,089,437	₱51,619,999	₱44,303,654

BSP Reporting

The information on the concentration of credit as to industry before taking into account the allowance for credit losses follows:

	Consolidated				Parent Company			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Wholesale and retail trade	₱11,012,377	21.23	₱9,527,128	21.74	₱10,947,069	21.81	₱9,460,541	22.47
Manufacturing	8,795,298	16.95	7,828,090	17.86	8,795,298	17.52	7,828,090	18.59
Real estate, renting and business activities	8,634,774	16.64	6,766,110	15.44	8,634,774	17.20	6,766,110	16.07
Private households with employed persons	7,898,283	15.22	6,539,698	14.92	6,675,688	13.30	5,368,000	12.75
Financial intermediaries	4,022,210	7.75	4,809,601	10.98	4,022,210	8.01	4,809,601	11.42
Electric, gas and water supply	3,289,698	6.34	1,605,111	3.66	3,289,698	6.55	1,605,111	3.81
Construction	2,578,865	4.97	2,251,414	5.14	2,578,865	5.14	2,251,414	5.35
Transport, storage and communication	1,670,510	3.22	1,813,102	4.14	1,670,510	3.33	1,813,102	4.31
Agriculture, hunting and forestry	1,615,185	3.11	1,371,682	3.13	1,314,536	2.62	1,054,631	2.50
Human health and social work activities	615,214	1.19	533,505	1.22	615,214	1.23	533,505	1.27
Other service activities	420,891	0.81	232,139	0.53	340,954	0.68	137,546	0.33
Accommodation and food service activities	156,585	0.30	136,112	0.31	156,585	0.31	136,112	0.32
Education	52,957	0.10	53,071	0.12	48,004	0.10	53,071	0.13
Mining and quarrying	48,018	0.09	281,879	0.64	48,018	0.10	281,879	0.67
Others	1,066,528	2.08	70,530	0.17	1,060,249	2.10	4,135	0.01
	₱51,877,393	100.00	₱43,819,172	100.00	₱50,197,672	100.00	₱42,102,848	100.00



The information (gross of unearned discounts and capitalized interest) relating to receivables from customers as to secured and unsecured and as to collateral follows:

	Consolidated				Parent Company			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Loans secured by:								
Real estate	₱7,997,286	15.36	₱7,230,862	16.46	₱7,871,633	15.65	₱7,082,333	16.80
Chattel	4,459,181	8.57	3,414,021	7.77	4,458,933	8.86	3,414,021	8.10
Deposit hold-out	890,530	1.71	859,978	1.87	855,758	1.70	820,524	1.95
Securities and others	1,790,686	3.44	1,616,197	3.68	1,790,686	3.56	1,616,197	3.84
Secured	15,137,683	29.08	13,121,058	29.78	14,977,010	29.77	12,933,075	30.69
Unsecured loans	36,922,357	70.92	30,805,786	70.22	35,328,507	70.23	29,206,584	69.31
	₱52,060,040	100.00	₱43,926,844	100.00	₱50,305,517	100.00	₱42,139,659	100.00

Non-performing Loans (NPLs) classified as secured and unsecured as reported to the BSP follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Secured	₱625,473	₱660,080	₱337,970	₱363,666
Unsecured	2,003,440	2,032,222	1,850,930	1,895,349
	₱2,628,913	₱2,692,302	₱2,188,900	₱2,259,015

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

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

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

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. Effective January 1, 2013, the exclusion of NPLs classified as loss but are fully covered by allowance was removed by the BSP through BSP Circular No. 772. Previous banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

As of December 31, 2017 and 2016, based on the revised definition of NPLs under BSP Circular No. 772, NPLs of ₱483.52 million for 2017 and ₱484.45 million for 2016, which the Group reported to the BSP are net of specific allowance amounting to ₱2.14 billion and ₱2.21 billion, respectively. Gross and net NPL ratios of the Group are 5.09% and 0.94% for 2017, respectively, and 6.14% and



1.10% for 2016, respectively.

As of December 31, 2017 and 2016, based on the revised definition of NPLs under BSP Circular No. 772, NPLs of ₱489.98 million for 2017 and ₱486.10 million for 2016, which the Parent Company reported to the BSP are net of specific allowance amounting to ₱1.70 billion and ₱1.77 billion, respectively. Gross and net NPL ratios of the Parent Company are 4.42% and 0.99% for 2017, respectively, and 5.42% and 1.17% for 2016, respectively.

Unquoted Debt Securities

As of December 31, 2017 and 2016, unquoted debt securities of the Group and the Parent Company consist of the following:

	2017	2016
Investments in:		
Fixed-Rate Corporate Notes	₱1,398,514	₱1,606,323
Metro Rail Transit (MRT) bonds	1,413,313	1,551,050
	₱2,811,827	₱3,157,373

As of December 31, 2017 and 2016, unquoted debt instruments include corporate notes with par value of ₱1.41 billion and ₱1.61 billion, respectively, which contain embedded prepayment options that allow the issuers to redeem these notes prior to the notes' respective maturities. The notes have original maturities ranging from 7 to 10 years. The Parent Company assessed that these options are clearly and closely related to the host note instruments, since redemption price approximates the amortized cost on redemption dates. Accordingly, these prepayment options were not accounted for separately from the host note instruments.

The accretion of interest on unquoted debt securities amounted to ₱93.48 million, ₱180.52 million and ₱182.63 million in 2017, 2016 and 2015, respectively.

Accounts Receivable

Included in Accounts receivable is the tax withheld by the Bureau of Treasury (BTr) from the face value of the Parent Company's investment in Poverty Eradication and Alleviation Certificates (PEACE) bonds upon their maturity amounting to ₱425.67 million. The allowance for credit losses provided for the receivable as of December 31, 2015 is ₱53.39 million, which has been fully reversed in 2016 as a result of the final decision of the Supreme Court (SC) on the case, as discussed below.

The Parent Company's investment in PEACE bonds with aggregate face value of ₱3.00 billion matured on October 18, 2011. Upon investing and until the PEACE bonds matured, the Parent Company treated these PEACE bonds as tax-exempt investments in accordance with Bureau of Internal Revenue (BIR) Ruling 020-2001, which the BIR has issued in 2001 to address the taxation of interest income from such bonds. Under BIR Ruling 020-2001, PEACE bonds were not considered to be a "public" borrowing having been issued to less than 20 investors, thus, the bonds are not considered as "deposit substitutes" by virtue of Section 22Y of the 1997 Tax Code. Accordingly, interest income realized from the issuance of PEACE bonds was not subjected to the 20.00% final withholding tax (FWT).

However, on October 7, 2011, the BIR issued BIR Ruling No. 370-2011 citing that the PEACE bonds are in the nature of deposit substitutes, thus, the interest income on such bonds is subject to the 20.00% FWT. The decision under BIR Ruling No. 370-2011 was based on Rulings Delegated Authority-491-04 and BIR Ruling No. 008-05 which the BIR issued on September 13, 2004 and July 28, 2005, respectively.



Due to BIR Ruling No. 370-2011, which imposes the withholding of the 20.00% FWT, the Parent Company and seven other investor banks filed a case against the Government, the BIR, the BIR Commissioner, the Department of Finance, the Secretary of Finance, the BTr and the National Treasurer (collectively the Respondents) with the following prayers:

- a. Annul BIR Ruling No. 370-2011 and related BIR rulings of the same tenor and import, for being unconstitutional; and
- b. Prohibit the Respondents from imposing the 20.00% FWT or collecting it from the investor banks and/or the Respondents, particularly the BTr, to pay the full amount of the PEACe bonds in full upon maturity.

On October 18, 2011, the SC issued a temporary restraining order (TRO) in favor of the investor banks which ordered the following:

- a. The Government to remit the full payment for the PEACe bonds to the banks; and
- b. The banks to deposit in an escrow account an amount equivalent to the 20.00% FWT.

However, the BTr did not observe the TRO claiming that it was received only a day after withholding of the FWT was made. On November 8, 2011, the investor banks filed a Manifestation with Urgent Ex Parte Motion to the SC to direct the Government to comply with the TRO.

On November 2, 2011, the BIR filed its comments on the petition filed by the investor banks to the SC. On December 1, 2011, the investor banks filed its replies in response to the BIR comments. The banks filed a Manifestation with Urgent Reiterative Motion to Direct Respondents to comply with the TRO dated November 27, 2012, to which the Public Respondents filed their Comment dated April 11, 2013. On June 5, 2013, the banks filed a Motion for Leave to File and Admit Attached Reply.

On January 13, 2015, the SC ordered the BTr to return to the holders of the PEACe bonds the 20.00% percent final withholding tax. The SC states that the PEACe bonds are not deposit substitutes subject to the 20.00% final tax, therefore, the BTr should immediately return to the investors the 20.00% final tax it withheld and deducted from the redemption value of the bond when it matured in 2011.

The SC anchored its decision on the fact that, upon origination, the bond was issued to only one buyer/lender, the CODE-NGO, and not to 20 or more lenders (the 20-lender rule) which is a requirement for a debt instrument to become a public borrowing making the instrument a deposit substitute subject to the 20.00% final tax.

On March 13, 2015, the Respondents filed their Motion for Reconsideration to the SC decision which was denied in a resolution dated August 16, 2016. In the said Resolution, the SC ordered the BTr to immediately release and pay the bondholders the amount of ₱4.97 billion, representing 20% final withholding tax on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment.

On November 22, 2016, the SC issued a Resolution which denied for lack of merit, the Motion for Leave (i) to File Motion for Partial Reconsideration; and (ii) to Admit Motion for Partial Reconsideration (of the Resolution dated August 16, 2016), dated October 19, 2016 filed by the Office of Solicitor General for the respondents, considering that a second motion for reconsideration is a prohibited pleading. With no further pleadings or motions to be entertained, the SC ordered the entry of the judgment to be made in due course. However, the BIR filed a Second Motion for Reconsideration that the legal interest be imposed only from decision date (that is, 2015) rather than maturity date (that is, 2017).



On January 19, 2017, the SC denied the BIR's Second Motion for Reconsideration.

On April 11, 2017, the BTr issued Retail Treasury Bonds amounting to ₱518.97 million representing the full payment of the receivable from BTr amounting to ₱425.67 million and interest earned from October 2011 to April 2017 amounting to ₱93.30 million, which is included under 'Interest income - Investment securities' in the statements of income.

Interest Income

Interest income on loans and receivables consists of interest income on:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Receivables from customers:						
Corporate	₱1,834,314	₱1,487,781	₱1,122,165	₱1,834,314	₱1,487,781	₱1,122,165
Consumer	1,114,204	1,118,359	1,114,972	820,211	757,627	818,201
Unquoted debt securities	253,390	280,009	349,550	253,390	280,009	349,550
Others	14,013	15,919	10,650	13,395	14,484	9,759
	₱3,215,921	₱2,902,068	₱2,597,337	₱2,921,310	₱2,539,901	₱2,299,675

Of the total receivables from customers of the Group as of December 31, 2017, 2016 and 2015, 51.27%, 63.75% and 65.53%, respectively, are subject to periodic interest repricing. The remaining peso-denominated receivables from customers earn annual fixed interest rates ranging from 1.50% to 38.40% in 2017 and 2016, and 1.75% to 38.40% in 2015, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 3.33% to 9.82% in 2017, 4.49% to 9.82% in 2016, and 5.75% to 9.82% in 2015.

Unquoted debt securities have EIRs ranging from 5.47 % to 11.90% in 2017 and 2016, and 5.00% to 11.90% in 2015. Sales contracts receivable bears interest rates ranging from 7.00% to 14.50% in 2017, 6.00% to 14.50% in 2016, and 5.55% to 14.50% in 2015.

13. Property and Equipment

The composition of and movements in property and equipment of the Group and the Parent Company carried at cost follow:

	Consolidated					
	2017					
	Condominium Properties (Note 14)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost						
Balance at January 1	₱550,852	₱446,742	₱1,036,596	₱426,343	₱—	₱2,460,533
Additions	1,162	32,704	40,135	11,235	—	85,236
Disposals	—	(863)	(64,613)	(23,547)	—	(89,023)
Transfers (Note 14)	—	(44,354)	28,442	—	—	(15,912)
Balance at December 31	552,014	434,229	1,040,560	414,031	—	2,440,834
Accumulated depreciation and amortization						
Balance at January 1	162,998	278,478	700,029	188,994	—	1,330,499
Depreciation and amortization	17,011	21,873	133,723	56,983	—	229,590
Disposals	—	(746)	(54,733)	(8,275)	—	(63,754)
Transfers (Note 14)	—	(22,758)	12,151	—	—	(10,607)
Balance at December 31	180,009	276,847	791,170	237,702	—	1,485,728
Net book value	₱372,005	₱157,382	₱249,390	₱176,329	₱—	₱955,106



Consolidated						
2016						
	Condominium Properties (Note 14)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost						
Balance at January 1	₱549,738	₱431,571	₱1,094,665	₱331,033	₱35,617	₱2,442,624
Additions	1,114	15,171	45,497	81,421	3,589	146,792
Disposals	—	—	(112,636)	(18,512)	—	(131,148)
Transfers	—	—	9,070	32,401	(39,206)	2,265
Balance at December 31	550,852	446,742	1,036,596	426,343	—	2,460,533
Accumulated depreciation and amortization						
Balance at January 1	145,901	256,038	647,891	121,002	—	1,170,832
Depreciation and amortization	17,097	22,440	138,738	78,175	—	256,450
Disposals	—	—	(88,910)	(10,183)	—	(99,093)
Transfers	—	—	2,310	—	—	2,310
Balance at December 31	162,998	278,478	700,029	188,994	—	1,330,499
Net book value	₱387,854	₱168,264	₱336,567	₱237,349	₱—	₱1,130,034

Parent Company						
2017						
	Condominium Properties (Note 14)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost						
Balance at January 1	₱550,852	₱400,092	₱997,431	₱405,949	₱—	₱2,354,324
Additions	1,162	32,379	32,942	10,904	—	77,387
Disposals	—	—	(63,644)	(23,547)	—	(87,191)
Transfers (Note 14)	—	(46,619)	28,442	—	—	(18,177)
Balance at December 31	552,014	385,852	995,171	393,306	—	2,326,343
Accumulated depreciation and amortization						
Balance at January 1	162,998	267,465	681,299	175,974	—	1,287,736
Depreciation and amortization	17,011	17,370	122,937	53,990	—	211,308
Disposals	—	—	(54,686)	(8,275)	—	(62,961)
Transfers (Note 14)	—	(22,758)	12,151	—	—	(10,607)
Balance at December 31	180,009	262,077	761,701	221,689	—	1,425,476
Net book value	₱372,005	₱123,775	₱233,470	₱171,617	₱—	₱900,867

Parent Company						
2016						
	Condominium Properties (Note 14)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
Cost						
Balance at January 1	₱549,738	₱385,504	₱1,062,778	₱312,581	₱35,617	₱2,346,218
Additions	1,114	14,588	41,046	79,479	—	136,227
Disposals	—	—	(112,636)	(18,512)	—	(131,148)
Transfers	—	—	6,243	32,401	(35,617)	3,027
Balance at December 31	550,852	400,092	997,431	405,949	—	2,354,324
Accumulated depreciation and amortization						
Balance at January 1	145,901	249,581	639,387	111,846	—	1,146,715
Depreciation and amortization	17,097	17,884	128,512	74,311	—	237,804
Disposals	—	—	(88,910)	(10,183)	—	(99,093)
Transfers	—	—	2,310	—	—	2,310
Balance at December 31	162,998	267,465	681,299	175,974	—	1,287,736
Net book value	₱387,854	₱132,627	₱316,132	₱229,975	₱—	₱1,066,588

In February 2015, management decided to lease out the entire 3rd and 4th floors of the Parent Company's Binondo building which were previously used as bank premises. Upon transfer, the fair value of the property amounting to ₱18.70 million was recognized in 'Investment properties'. The difference of ₱16.48 million between the fair value amounting to ₱18.70 million and the net carrying amount of the property amounting to ₱2.22 million was recognized as a revaluation increment, net of tax.



In February 2017, the 3rd floor was converted from office units for lease to Bank premises due to a need for storage area and additional operating space. Upon transfer, the fair value and the new carrying amount of the property at the date of transfer amounting to ₱9.85 million was recognized as buildings and improvements under 'Property and equipment' (see Note 14).

The revaluation increment, which was recognized in 2015 as a result of the change in use of the 3rd floor, will be amortized over the remaining useful life of this property and will be transferred directly to 'Deficit'. For the year ended December 31, 2017, the amortization of revaluation surplus amounted to ₱0.31 million.

In August 2017, management decided to lease out the 5th and 6th floors of the Parent Company's Binondo building which were previously used as bank premises. Upon transfer, the fair value of the property amounting to ₱33.71 million was recognized in 'Investment properties' (see Note 14). The difference of ₱31.32 million between the fair value amounting to ₱33.71 million and the net carrying amount of the property amounting to ₱2.39 million was recognized as revaluation increment, net of tax.

In December 2017, the operating lease on one of BDI's buildings expired. BDI decided to use the building to house its new data server. Consequently, this property was converted from investment property to Bank premises. Upon transfer, the fair value and the new carrying amount of the property at the date of transfer amounting to ₱2.27 was recognized as buildings and improvements under 'Property and equipment' (see Note 14).

The Group recognized gain (loss) on disposal of furniture, fixtures, and equipment, which is included under 'Profit (loss) from assets sold' in the statements of income, amounting to (₱9.94 million), (₱7.78 million) and ₱0.96 million in 2017, 2016 and 2015, respectively. The Parent Company recognized gain (loss) on disposal of furniture, fixtures, and equipment amounting to (₱13.13 million), (₱7.78 million) and ₱0.12 million in 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, details of the land carried at appraised value are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Cost				
Balance at January 1	₱165,410	₱165,410	₱117,678	₱117,678
Disposal	(528)	—	—	—
Balance at December 31	164,882	165,410	117,678	117,678
Appraisal increment				
Balance at January 1 and December 31	353,600	353,600	352,435	352,435
	₱518,482	₱519,010	₱470,113	₱470,113

Depreciation and Amortization

Details of this account are as follows:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Property and equipment	₱229,590	₱256,450	₱226,400	₱211,308	₱237,804	₱207,962
Software costs (Note 15)	67,345	76,634	55,011	65,933	74,198	53,111
Chattel mortgage	29,980	12,494	9,120	29,893	12,494	9,119
	₱326,915	₱345,578	₱290,531	₱307,134	₱324,496	₱270,192



As of December 31, 2017 and 2016, the cost of fully depreciated furniture, fixtures and equipment still in use by the Group amounted to ₱479.54 million and ₱364.72 million, respectively.

As of December 31, 2017 and 2016, the cost of fully depreciated furniture, fixtures and equipment still in use by the Parent Company amounted to ₱419.43 million and ₱318.07 million, respectively.

14. Investment Properties

The composition of and movements in this account follow:

Consolidated					
2017					
	Foreclosed Properties			Office Units for Lease	Condominium Units for Lease
	Land	Buildings and Improvements	Total		
Balance at January 1	₱520,617	₱436,383	₱957,000	₱23,858	₱5,044,552
Additions	28,238	19,463	47,701	192	6,551
Transfers (Note 13)	—	(2,265)	(2,265)	23,861	—
Disposals	(15,310)	(3,999)	(19,309)	—	—
Net gain from fair value adjustments	59,750	(22,167)	37,583	2,432	313,977
Balance at December 31	₱593,295	₱427,415	₱1,020,710	₱50,343	₱5,365,080

Consolidated					
2016					
	Foreclosed Properties			Office Units for Lease	Condominium Units for Lease
	Land	Buildings and Improvements	Total		
Balance at January 1	₱506,702	₱373,532	₱880,234	₱19,142	₱4,799,635
Additions	26,357	61,492	87,849	—	1,515
Disposals	(26,964)	(22,405)	(49,369)	—	—
Net gain from fair value adjustments	14,522	23,764	38,286	4,716	243,402
Balance at December 31	₱520,617	₱436,383	₱957,000	₱23,858	₱5,044,552

Parent Company					
2017					
	Foreclosed Properties			Office Units for Lease	Condominium Units for Lease
	Land	Buildings and Improvements	Total		
Balance at January 1	₱324,053	₱397,727	₱721,780	₱23,858	₱5,044,552
Additions	19,326	19,463	38,789	192	6,551
Transfers (Note 13)	—	—	—	23,861	—
Disposals	(16,376)	(3,436)	(19,812)	—	—
Net gain from fair value adjustments	44,666	(24,216)	20,450	2,432	313,977
Balance at December 31	₱371,669	₱389,538	₱761,207	₱50,343	₱5,365,080



Parent Company					
2016					
	Foreclosed Properties			Office Units for Lease	Condominium Units for Lease
	Land	Buildings and Improvements	Total		
Balance at January 1	₱330,744	₱350,664	₱681,408	₱19,142	₱4,799,635
Additions	26,357	61,492	87,849	—	1,515
Disposals	(16,276)	(35,178)	(51,454)	—	—
Net gain from fair value adjustments	(16,772)	20,749	3,977	4,716	243,402
Balance at December 31	₱324,053	₱397,727	₱721,780	₱23,858	₱5,044,552

Condominium units for lease represents the contributed cost of developing the Parent Company's Ayala Avenue property, originally consisting of land and fully depreciated building, into a 52-storey building (the PBCom Tower) under a joint development agreement with Filinvest Asia Corporation (Filinvest Asia).

The agreement provided for equal sharing of the cost of the project and, correspondingly, of the net usable area of the building, which was converted into a condominium property. Under the agreement, the Parent Company's share in such cost included its land along Ayala Avenue, which was given an appraised value of ₱900.00 million in 1995. The related appraisal increment was closed to surplus, net of applicable deferred tax liability, upon completion of the project in 2000.

In November 2007, by virtue of condominiumization, various condominium certificate of titles under the name of the Parent Company were derived from transfer certificate of title (TCT) No. 134599 where the declaration of restrictions and scope of coverage were annotated on October 23, 2007.

In November 2012, management, for administrative purposes and operational efficiencies, decided to use half of the 15th floor and the entire 18th floor of PBCom Tower to house the Parent Company's employees working in the Binondo and Makati Offices. In June 2013, management decided to use the other half of the 15th floor for the same purpose. Accordingly, the carrying values of these units have been reclassified to 'Property and equipment' at cost as of December 31, 2013. In September 2014, management decided to use the entire 15th and 18th floors as areas available for lease of tenants. In October 2014, the units were reclassified to 'Investment properties' at their fair values.

In February 2015, management decided to lease out the entire 3rd and 4th floors of the Parent Company's Binondo building which were previously used as bank premises. Upon transfer, the fair value of the property amounting to ₱18.70 million was recognized as office units for lease under 'Investment properties'.

In February 2017, the 3rd floor was converted from office units for lease to Bank premises due to a need for storage area and additional operating space. Upon transfer, the fair value of the property at the date of transfer amounting to ₱9.85 million was recognized as buildings and improvements under 'Property and equipment' (see Note 13).

In August 2017, management decided to lease out the 5th and 6th floors of the Parent Company's Binondo building which were previously used as bank premises. Upon transfer, the fair value of the property amounting to ₱33.71 million was recognized as office units for lease under 'Investment properties' (see Note 13).



In December 2017, the operating lease on one of BDI's buildings expired. BDI decided to use the building to house its new data server. Consequently, this property was converted from investment property to Bank premises. Upon transfer, the fair value of the property at the date of transfer amounting to ₱2.27 million was recognized as buildings and improvements under 'Property and equipment' (see Note 13).

As of December 31, 2017 and 2016, about 84.47% of the usable area that the Parent Company acquired from the PBCom Tower project is held for lease, with the balance used for the Parent Company's operations. Accordingly, the cost allocable to the areas available for lease is carried as investment properties, while the remaining balance is carried as condominium properties and included in 'Property and equipment' at cost (see Note 13).

The Parent Company recognized rental income (included under 'Rent income' in the statements of income) amounting to ₱545.50 million, ₱452.80 million and ₱382.18 million in 2017, 2016 and 2015, respectively, on condominium properties leased out under operating leases. In 2017, 2016 and 2015, the Parent Company also recognized rental income from office units for lease amounting to ₱3.26 million, ₱1.69 million and ₱1.97 million, respectively.

The Group recorded gain (loss) from foreclosure of loan collaterals amounting to ₱5.49 million, ₱12.17 million and ₱3.70 million in 2017, 2016, and 2015, respectively. The Parent Company recognized gain (loss) from foreclosure of loan collaterals amounting to (₱0.08 million), ₱12.17 million and (₱0.22 million) in 2017, 2016, and 2015, respectively. This is presented as 'Gain (loss) on assets exchange - net' in the statements of income.

The Group recorded gain (loss) on disposal of certain foreclosed properties amounting to ₱28.59 million, (₱0.53 million) and ₱5.33 million in 2017, 2016, and 2015, respectively. The Parent Company recognized gain (loss) from the disposal of certain foreclosed properties amounting to ₱23.29 million, (₱1.13 million) and ₱5.44 million in 2017, 2016, and 2015, respectively. This is included under 'Profit (loss) from assets sold' in the statements of income.

Direct operating expenses (included under 'Compensation and fringe benefits', 'Occupancy and other equipment-related costs', 'Taxes and licenses' and 'Miscellaneous') arising from investment properties that generated rental income amounted to ₱37.74 million, ₱89.69 million and ₱103.90 million in 2017, 2016, and 2015, respectively.

Direct operating expenses (included under 'Compensation and fringe benefits', 'Occupancy and other equipment-related costs', 'Taxes and licenses' and 'Miscellaneous') arising from investment properties that did not generate rental income amounted to ₱1.54 million, ₱1.14 million and ₱19.54 million in 2017, 2016, and 2015, respectively.

As disclosed in Note 23, the BSP has directed the Parent Company to change its accounting treatment for investment properties from the fair value model to the cost model starting in 2018. Consequently, when the Parent Company prepares its 2018 financial statements, comparative information for 2017 and 2018 will be restated. Had the investment properties been accounted for using the cost model, the Group's investment properties as of December 31, 2017 and 2016 would have been ₱2.68 billion and ₱2.66 billion, respectively. Consolidated net income in 2017, 2016 and 2015 would have decreased by ₱282.07 million, ₱266.56 million and ₱644.42 million, respectively. Consequently, this would have resulted in a consolidated net income (loss) of ₱436.64 million, ₱133.32 million and (₱440.74 million) in 2017, 2016 and 2015, respectively.



Had the investment properties been accounted for using the cost model, the Parent Company's investment properties as of December 31, 2017 and 2016 would have been ₱2.44 billion. Parent company net income in 2017, 2016 and 2015 would have decreased by ₱269.85 million, ₱244.29 million and ₱635.83 million, respectively. Consequently, this would have resulted in a parent company net income (loss) of ₱448.85 million, ₱155.76 million and (₱432.52 million) in 2017, 2016 and 2015, respectively.

15. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the acquisition costs over the fair value of the identifiable assets and liabilities of the entities acquired by the Group.

Since the three-way merger has already been committed as of December 31, 2016 (see Note 7), goodwill acquired through the acquisitions of RBNI and BDI aggregating to ₱178.46 million has been allocated to the merged operations of RBNI and BDI, which was considered as a single CGU for purposes of impairment testing.

As of December 31, 2017, BDI as the surviving entity from the three-way merger is the identified CGU for purposes of impairment testing of the goodwill from the acquisitions of RBNI, BDI and RBKI aggregating to ₱182.23 million.

Management assessed that no impairment losses shall be recognized in 2017, 2016 and 2015.

Key assumptions used in the VIU calculation

The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from the five-year strategic plan for BDI (for the December 31, 2017 impairment testing) and BDI and RBNI (for the December 31, 2016 impairment testing), as approved by their BOD and the Parent Company. The significant assumptions used in computing for the recoverable amount of the CGU follow:

Significant Assumptions	2017	2016
Growth rates:		
Loans	18.10% - 27.00%	18.10% - 27.00%
Deposits	5.85% - 23.76%	5.85% - 23.76%
Discount rate	12.17%	11.18%
Terminal value growth rate	5.00%	5.00%

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

Intangible Assets

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Branch licenses	₱365,300	₱365,300	₱102,100	₱102,100
Software costs	378,879	415,866	378,333	413,908
	₱744,179	₱781,166	₱480,433	₱516,008



Branch licenses

Branch licenses of the Group arose from the acquisitions of Consumer Savings Bank (CSB), BDI and RBNI. As of December 31, 2017 and 2016, details of branch licenses follow:

	Consolidated	Parent Company
Branch licenses from the acquisitions of:		
RBNI	₱262,900	₱—
CSB	102,100	102,100
BDI	300	—
	₱365,300	₱102,100

As of December 31, 2017 and 2016, the individual branches were identified as the CGU for purposes of impairment testing on the branch licenses.

In 2017, 2016 and 2015, the Parent Company's impairment assessment indicates no impairment. The recoverable amount was based on VIU calculations that use Level 3 inputs as described below.

Key assumptions used in the VIU calculations

As of December 31, 2017 and 2016, the recoverable amounts of the CGUs have been determined based on a VIU calculation using cash flow projections based on financial budgets approved by management covering a five-year period. The significant assumptions used in computing for the recoverable amount of the CGU follow:

Significant Assumptions	2017	2016
Deposit growth rates	20.94% - 20.51%	21.57% - 23.10%
Discount rate	12.39%	12.64%
Terminal value growth rate	5.00%	5.00%

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to exceed its recoverable amount.

Software

The movements of software costs follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Balance at January 1	₱415,866	₱459,516	₱413,908	₱455,966
Additions during the year	30,358	32,984	30,358	32,140
	446,224	492,500	444,266	488,106
Amortization during the year (Note 13)	(67,345)	(76,634)	(65,933)	(74,198)
Balance at December 31	₱378,879	₱415,866	₱378,333	₱413,908



16. Other Assets

Other assets consist of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Receivable from BIR	₱181,684	₱283,811	₱181,684	₱283,811
Tax credits	328,927	250,558	328,927	249,554
Nostro floats	206,414	206,414	206,414	206,414
Prepaid expenses	92,732	76,597	89,881	77,710
Chattel mortgage	73,615	40,395	73,615	40,395
RCOCI	10,400	2,406	10,400	2,406
Retirement asset (Note 27)	—	1,336	—	—
Miscellaneous	140,152	142,070	128,659	127,827
	1,033,924	1,003,587	1,019,580	988,117
Less allowance for impairment losses (Note 17)	(335,981)	(494,254)	(335,981)	(494,254)
	₱697,943	₱509,333	₱683,599	₱493,863

Receivable from BIR

As of December 31, 2016, this account includes creditable withholding tax and various tax credits aggregating to ₱283.81 million, which has been fully provided with allowance for impairment losses in prior years.

In 2017, the Parent Company wrote-off receivables from the BIR amounting to ₱96.88 million as a result of the SC's disallowance on these claims. Also, in 2017, the Parent Company reversed the allowance for impairment losses amounting to ₱61.39 million (see Note 17) as a result of either: (1) the decision of the SC granting a certain portion of the Parent Company's claim for refund for taxable years 2004, 2007 and 2008; or (2) the decision of the Court of Tax Appeals granting a certain portion of the Parent Company's claim for refund for taxable years 2003, 2006 and 2009, which decisions have been elevated to the SC and currently pending therein. As of December 31, 2017, the balance of receivable from BIR amounted to ₱181.68 million.

Nostro Floats

As of December 31, 2017 and 2016, Nostro floats are fully provided with allowance for impairment losses.

Chattel Mortgage

In 2017, 2016 and 2015, gain (loss) recognized by the Group and the Parent Company from the disposal of certain chattel mortgage amounted to (₱6.70 million), ₱0.99 million and (₱0.95 million), respectively. This is included under 'Profit (loss) from assets sold' in the statements of income.



Miscellaneous

As of December 31, 2017 and 2016, the Group's and the Parent Company's miscellaneous other assets consist of the following:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Refundable security deposits	₱29,414	₱30,053	₱27,810	₱28,449
DST	45,288	21,145	45,288	21,145
Advance rentals	12,582	11,773	12,582	11,773
Stationery and supplies	8,545	8,472	5,286	4,327
Others	44,323	70,627	37,693	62,133
	₱140,152	₱142,070	₱128,659	₱127,827

17. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Balance at January 1:				
Loans and receivables (Note 12)	₱2,608,168	₱2,168,007	₱2,626,010	₱2,233,940
Other assets (Note 16)	494,254	494,156	494,254	494,156
	3,102,422	2,662,163	3,120,264	2,728,096
Provision for credit and impairment losses	338,495	477,968	288,811	396,223
Revaluation of FCDU loans	(564)	3,044	(564)	3,044
Accounts written off and others	(534,293)	(40,753)	(511,546)	(7,099)
	(196,362)	440,259	(223,299)	392,168
Balance at December 31:				
Loans and receivables (Note 12)	2,570,079	2,608,168	2,560,984	2,626,010
Other assets (Note 16)	335,981	494,254	335,981	494,254
	₱2,906,060	₱3,102,422	₱2,896,965	₱3,120,264

Below is the breakdown of provisions for (reversals of) credit and impairment losses:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Loans and receivables	₱399,885	₱477,968	₱434,022	₱350,201	₱396,223	₱381,713
Other assets (Note 16)	(61,390)	—	9,780	(61,390)	—	9,780
	₱338,495	₱477,968	₱443,802	₱288,811	₱396,223	₱391,493



With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to take care of any losses that the Group may incur from the noncollection or nonrealization of its receivables and other risk assets. A reconciliation of the allowance for credit losses by class of loans and receivables follows:

	Consolidated			
	2017			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,526,640	₱596,361	₱485,167	₱2,608,168
Provisions during the year	170,139	221,911	7,835	399,885
Revaluation	(573)	—	2	(571)
Others**	(310,719)	(61,634)	(65,050)	(437,403)
Balance at December 31	₱1,385,487	₱756,638	₱427,954	₱2,570,079
Individual impairment	₱1,097,109	₱25,540	₱360,188	₱1,482,837
Collective impairment	288,378	731,098	67,766	1,087,242
	₱1,385,487	₱756,638	₱427,954	₱2,570,079
Gross amount of loans individually determined to be impaired (Note 5)	₱1,197,733	₱36,942	₱360,188	₱1,594,863

* This includes allowance for credit losses on accrued interest receivable, accounts receivable and sales contracts receivables.

** This includes transfers and write-offs.

	Consolidated			
	2016			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,343,829	₱314,455	₱509,723	₱2,168,007
Provisions (reversals) during the year	183,302	319,011	(24,345)	477,968
Revaluation	2,922	—	24	2,946
Others**	(3,413)	(37,105)	(235)	(40,753)
Balance at December 31	₱1,526,640	₱596,361	₱485,167	₱2,608,168
Individual impairment	₱1,111,870	₱29,529	₱456,639	₱1,598,038
Collective impairment	414,770	566,832	28,528	1,010,130
	₱1,526,640	₱596,361	₱485,167	₱2,608,168
Gross amount of loans individually determined to be impaired (Note 5)	₱1,156,648	₱38,204	₱456,639	₱1,651,491

* This includes allowance for credit losses on accrued interest receivable, accounts receivable and sales contracts receivables.

** This includes transfers and write-offs.

	Parent Company			
	2017			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,526,640	₱604,015	₱495,355	₱2,626,010
Provisions (reversals) during the year	170,139	184,851	(4,789)	350,201
Revaluation	(573)	—	2	(571)
Others**	(310,719)	(38,525)	(65,412)	(414,656)
Balance at December 31	₱1,385,487	₱750,341	₱425,156	₱2,560,984
Individual impairment	₱1,097,109	₱—	₱360,188	₱1,457,297
Collective impairment	288,378	750,341	64,968	1,103,687
	₱1,385,487	₱750,341	₱425,156	₱2,560,984
Gross amount of loans individually determined to be impaired (Note 5)	₱1,197,733	₱—	₱360,188	₱1,557,921

* This includes allowance for credit losses on accrued interest receivable, accounts receivable and sales contracts receivables.

** This includes transfers and write-offs.



	Parent Company			
	2016			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,343,829	₱377,112	₱512,999	₱2,233,940
Provisions (reversals) during the year	183,302	230,520	(17,599)	396,223
Revaluation	2,922	—	24	2,946
Others**	(3,413)	(3,617)	(69)	(7,099)
Balance at December 31	₱1,526,640	₱604,015	₱495,355	₱2,626,010
Individual impairment	₱1,111,870	₱—	₱456,639	₱1,568,509
Collective impairment	414,770	604,015	38,716	1,057,501
	₱1,526,640	₱604,015	₱495,355	₱2,626,010
Gross amount of loans individually determined to be impaired (Note 5)	₱1,156,648	₱—	₱456,639	₱1,613,287

* This includes allowance for credit losses on accrued interest receivable, accounts receivable and sales contracts receivables.

** This includes transfers and write-offs.

18. Deposit Liabilities

On March 27 and May 8, 2014, the Monetary Board of the BSP issued BSP Circular No. 830 and BSP Circular No. 832, respectively, increasing the statutory and liquidity reserve requirement from 18% to 20%. As of December 31, 2017 and 2016, the Group is in compliance with the above regulations.

As of December 31, 2017 and 2016, Due from BSP amounting to ₱11.78 billion and ₱10.17 billion, respectively, were set aside as reserves for deposit liabilities.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Demand	₱47,023	₱36,531	₱36,798	₱47,023	₱36,873	₱36,798
Savings	11,402	6,987	13,575	7,841	5,545	7,717
Time	776,160	817,883	819,553	718,710	757,234	780,883
	₱834,585	₱861,401	₱869,926	₱773,574	₱799,652	₱825,398

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.10% to 3.50% in 2017, 2016 and 2015 while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.13% to 3.00%, 0.10% to 3.00%, and 0.10% to 1.48% in 2017, 2016 and 2015, respectively.

19. Bills Payable

This account consists of the Group's and the Parent Company's borrowings from:

	2017	2016
Private firms and individuals	₱7,802,790	₱10,091,388
Banks and other financial institutions	4,764,609	7,996
	₱12,567,399	₱10,099,384



Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Borrowed funds	₱223,618	₱170,735	₱92,423	₱222,078	₱170,101	₱88,316
Net interest cost on retirement liability (Note 27)	1,549	6,650	11,249	2,951	6,603	11,005
	₱225,167	₱177,385	₱103,672	₱225,029	₱176,704	₱99,321

The Group has no dollar interbank borrowings as of December 31, 2017 and 2016.

The Parent Company did not avail of peso and dollar rediscounting facilities in 2017 and 2016.

Borrowings from private firms and individuals represent deposit substitutes with maturities of 1 to 216 days and bear annual interest rates ranging from 0.50% to 3.50%, 0.41% to 2.90%, and 1.00% to 2.63%, in 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, Due from BSP amounting to ₱1.60 billion and ₱808.30 million, respectively, were set aside as reserves for deposit substitutes.

20. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Financial liabilities				
Accrued interest payable	₱94,553	₱75,416	₱83,285	₱57,832
Accrued other expenses	280,357	261,403	268,886	255,754
	374,910	336,819	352,171	313,586
Non-financial liabilities				
Retirement liability (Note 27)	21,169	56,311	20,354	51,779
Accrued taxes and licenses	25,587	21,445	19,246	17,087
	46,756	77,756	39,600	68,866
	₱421,666	₱414,575	₱391,771	₱382,452

21. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Financial liabilities				
Accounts payable	₱317,211	₱195,711	₱303,284	₱182,302
Refundable security deposits	167,355	140,349	167,355	140,159
Due to the Treasurer of the Philippines	31,616	24,049	30,926	23,672
	516,182	360,109	501,565	346,133
Non-financial liabilities				
Deferred credits	167,305	166,221	167,305	166,221
Withholding taxes payable	38,812	31,674	36,817	29,542
Miscellaneous	108,902	58,548	102,742	59,397
	315,019	256,443	306,864	255,160
	₱831,201	₱616,552	₱808,429	₱601,293



Miscellaneous liabilities of the Group and the Parent Company include marginal deposits, cash letters of credit, and deposit liabilities classified as dormant.

22. Maturity Analysis of Assets and Liabilities

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

	Consolidated					
	2017			2016		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial assets - at gross						
Cash and other cash items	₱974,207	₱—	₱974,207	₱1,042,611	₱—	₱1,042,611
Due from BSP	15,340,711	—	15,340,711	13,356,075	—	13,356,075
Due from other banks	1,166,063	—	1,166,063	2,996,758	—	2,996,758
Interbank loans receivable (Note 8)	534,925	—	534,925	310,131	—	310,131
Financial assets at FVTPL (Note 9)	2,740,471	—	2,740,471	300,483	—	300,483
Equity securities at FVTOCI (Note 10)	—	90,639	90,639	52,242	—	52,242
Investment securities at amortized cost (Note 11)	407,852	15,009,349	15,417,201	481,771	12,653,723	13,135,494
Loans and receivables (Note 12):						
Receivables from customers	26,548,914	25,511,126	52,060,040	27,728,796	16,198,048	43,926,844
Unquoted debt securities	—	2,811,827	2,811,827	—	3,157,373	3,157,373
Accrued interest receivable	435,476	379,120	814,596	501,515	278,606	780,121
Accounts receivable	236,835	14,302	251,137	615,942	145,409	761,351
Sales contracts receivable	157,863	10,230	168,093	38,889	140,699	179,588
Other assets (Note 16):						
Refundable security deposits	1,604	27,810	29,414	—	30,053	30,053
RCOCI	10,400	—	10,400	2,406	—	2,406
	48,555,321	43,854,403	92,409,724	47,427,619	32,603,911	80,031,530
Non-financial assets - at gross						
Investments in subsidiaries and an associate (Note 7)	—	13,068	13,068	—	12,376	12,376
Property and equipment (Note 13)	—	2,959,316	2,959,316	—	2,979,543	2,979,543
Investment properties (Note 14):						
Condominium units for lease	—	5,365,080	5,365,080	—	5,044,552	5,044,552
Foreclosed properties	—	1,020,710	1,020,710	—	957,000	957,000
Office units for lease	—	50,343	50,343	—	23,858	23,858
Goodwill (Note 15)	—	182,227	182,227	—	178,456	178,456
Intangible assets (Note 15)	—	744,179	744,179	—	781,166	781,166
Deferred tax assets (Note 30)	—	55,928	55,928	—	59,717	59,717
Other assets (Note 16)	179,185	814,925	994,110	109,561	861,567	971,128
	179,185	11,205,776	11,384,961	109,561	10,898,235	11,007,796
	₱48,734,506	₱55,060,179	103,794,685	₱47,537,180	₱43,502,146	91,039,326
Less:						
Unearned interest and discounts (Note 12)			(182,647)			(107,672)
Accumulated depreciation and amortization (Note 13)			(1,485,728)			(1,330,499)
Allowance for credit and impairment losses (Notes 12, 16 and 17)			(2,906,060)			(3,102,422)
Total			₱99,220,250			₱86,498,733

(Forward)



	Consolidated					
	2017			2016		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial liabilities						
Deposit liabilities:						
Demand	₱19,400,193	₱—	₱19,400,193	₱15,464,230	₱—	₱15,464,230
Savings	8,329,526	—	8,329,526	6,943,767	—	6,943,767
Time	38,153,187	4,852,911	43,006,098	35,251,411	5,486,573	40,737,984
Bills payable (Note 19)	12,567,399	—	12,567,399	10,099,384	—	10,099,384
Outstanding acceptances	64,085	—	64,085	34,357	—	34,357
Manager's checks	427,405	—	427,405	300,385	—	300,385
Accrued interest payable (Note 20)	94,553	—	94,553	75,416	—	75,416
Accrued other expenses (Note 20)	271,910	8,447	280,357	261,403	—	261,403
Other liabilities (Note 21):						
Accounts payable	317,211	—	317,211	195,711	—	195,711
Refundable security deposits	51,218	116,137	167,355	29,029	111,320	140,349
Due to the Treasurer of the Philippines	31,616	—	31,616	24,049	—	24,049
	79,708,303	4,977,495	84,685,798	68,679,142	5,597,893	74,277,035
Non-financial liabilities						
Deferred tax liabilities (Note 30)	—	1,228,855	1,228,855	—	1,105,523	1,105,523
Retirement liability (Notes 20 and 27)	—	21,169	21,169	—	56,311	56,311
Accrued taxes and licenses (Note 20)	25,587	—	25,587	21,445	—	21,445
Income tax payable	13,458	—	13,458	240	—	240
Other liabilities (Note 21):						
Deferred credits	86,050	81,255	167,305	—	166,221	166,221
Withholding taxes payable	38,812	—	38,812	2,132	29,542	31,674
Miscellaneous	47,804	61,098	108,902	6,521	52,027	58,548
	211,711	1,392,377	1,604,088	30,338	1,409,624	1,439,962
	₱79,920,014	₱6,369,872	₱86,289,886	₱68,709,480	₱7,007,517	₱75,716,997

	Parent Company					
	2017			2016		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial assets - at gross						
Cash and other cash items	₱941,823	₱—	₱941,823	₱1,011,756	₱—	₱1,011,756
Due from BSP	15,279,084	—	15,279,084	13,276,681	—	13,276,681
Due from other banks	965,820	—	965,820	2,631,497	—	2,631,497
Interbank loans receivable (Note 8)	534,925	—	534,925	310,131	—	310,131
Financial assets at FVTPL (Note 9)	2,740,471	—	2,740,471	300,483	—	300,483
Equity securities at FVTOCI (Note 10)	—	90,639	90,639	52,242	—	52,242
Investment securities at amortized cost (Note 11)	407,852	15,009,349	15,417,201	481,771	12,653,723	13,135,494
Loans and receivables (Note 12):						
Receivables from customers	26,031,671	24,273,846	50,305,517	27,485,151	14,654,508	42,139,659
Unquoted debt securities	—	2,811,827	2,811,827	—	3,157,373	3,157,373
Accrued interest receivable	435,035	346,459	781,494	469,614	278,606	748,220
Accounts receivable	234,657	—	234,657	608,407	145,408	753,815
Sales contracts receivable	33,107	122,226	155,333	38,844	128,564	167,408
Other assets (Note 16):						
Refundable security deposits	—	27,810	27,810	—	28,449	28,449
RCOCI	10,400	—	10,400	2,406	—	2,406
	47,614,845	42,682,156	90,297,001	46,668,983	31,046,631	77,715,614

(Forward)



	Parent Company					
	2017			2016		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Non-financial assets - at gross						
Investments in subsidiaries and an associate (Note 7)	P=	P1,058,074	P1,058,074	P=	P1,023,334	P1,023,334
Property and equipment (Note 13)	—	2,796,456	2,796,456	—	2,824,437	2,824,437
Investment properties (Note 14):						
Condominium units for lease	—	5,365,080	5,365,080	—	5,044,552	5,044,552
Foreclosed assets	—	761,207	761,207	—	721,780	721,780
Office units for lease	—	50,343	50,343	—	23,858	23,858
Intangible assets (Note 15)	—	480,433	480,433	—	516,008	516,008
Other assets (Note 16)	173,184	808,186	981,370	99,349	857,913	957,262
	173,184	11,319,779	11,492,963	99,349	11,011,882	11,111,231
	<u>P47,788,029</u>	<u>P54,001,935</u>	<u>101,789,964</u>	<u>P46,768,332</u>	<u>P42,058,513</u>	<u>88,826,845</u>
Less:						
Unearned interest and discounts (Note 12)			(107,845)			(36,811)
Accumulated depreciation and amortization (Note 13)			(1,425,476)			(1,287,736)
Allowance for credit and impairment losses (Notes 12, 16 and 17)			(2,896,965)			(3,120,264)
Total			<u>P97,359,678</u>			<u>P84,382,034</u>
Financial liabilities						
Deposit liabilities:						
Demand	P19,480,422	P=	P19,480,422	P15,571,988	P=	P15,571,988
Savings	7,790,785	—	7,790,785	6,400,070	—	6,400,070
Time	37,460,353	4,313,454	41,773,807	34,242,621	4,984,422	39,227,043
Bills payable (Note 19)	12,567,399	—	12,567,399	10,099,384	—	10,099,384
Outstanding acceptances	64,085	—	64,085	34,357	—	34,357
Manager's checks	427,405	—	427,405	300,385	—	300,385
Accrued interest payable (Note 20)	83,285	—	83,285	57,832	—	57,832
Accrued other expenses (Note 20)	268,886	—	268,886	255,754	—	255,754
Other liabilities (Note 21):						
Accounts payable	303,284	—	303,284	182,302	—	182,302
Refundable security deposits	52,284	115,071	167,355	29,029	111,130	140,159
Due to the Treasurer of the Philippines	30,926	—	30,926	23,672	—	23,672
	78,529,114	4,428,525	82,957,639	67,197,394	5,095,552	72,292,946
Non-financial liabilities						
Deferred tax liabilities (Note 30)	—	1,100,902	1,100,902	—	974,865	974,865
Retirement liability (Notes 20 and 27)	—	20,354	20,354	—	51,779	51,779
Accrued taxes and licenses (Note 20)	19,246	—	19,246	17,087	—	17,087
Income tax payable	14,945	—	14,945	182	—	182
Other liabilities (Note 21):						
Deferred credits	86,049	81,256	167,305	—	166,221	166,221
Withholding taxes payable	36,817	—	36,817	—	29,542	29,542
Miscellaneous	42,269	60,473	102,742	7,369	52,028	59,397
	199,326	1,262,985	1,462,311	24,638	1,274,435	1,299,073
	<u>P78,728,440</u>	<u>P5,691,510</u>	<u>P84,419,950</u>	<u>P67,222,032</u>	<u>P6,369,987</u>	<u>P73,592,019</u>



23. Equity

Common Stock

Details and movements of common stock follow:

	Shares		Amount	
	2017	2016	2017	2016
Common - ₱25 par value				
Authorized	760,000	760,000		
Issued and outstanding				
Balance at January 1	299,565	299,565	₱7,489,114	₱7,489,114
Issuance during the year (Note 1)	181,080	—	4,527,015	—
Balance at December 31	480,645	299,565	₱12,016,129	₱7,489,114

The Parent Company became listed in the PSE on May 12, 1988. After its listing in the PSE, there was no succeeding offer/selling to the public of the Parent Company's shares.

The summarized information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type/Class	Authorized Shares	Par Value
November 23, 1988	Common Class A	7,000,000	100
	Common Class B	3,000,000	100
June 3, 1993	Common Class A	14,000,000	100
	Common Class B	6,000,000	100
September 11, 1997	Common	65,000,000	100
April 6, 2001	Common	145,000,000	100
March 31, 2006	Common	145,000,000	100
	Preferred	120,000,000	25
March 11, 2013	Common	760,000,000	25

As reported by the Parent Company's transfer agent, AB Stock Transfers Corporation, the total number of shareholders is 398 and 460 as of December 31, 2017 and 2016, respectively.

Subscribed Common Stock

This pertains to the subscription of PGH to 181,080,608 new shares of the Parent Company in 2014 (see Note 1). Details of the account follow:

	2017	2016
Subscribed common stock		
Balance at January 1	₱5,975,660	₱5,975,660
Issuance of common stock (Note 1)	(5,975,660)	—
	—	5,975,660
Less: Subscription receivable		
Balance at January 1	1,394,320	2,788,641
Collections during the year	(1,394,320)	(1,394,321)
	—	1,394,320
Balance at December 31	₱—	₱4,581,340



Quasi-reorganization

On January 18, 2012, the BOD in its regular meeting approved the quasi-reorganization and increase in authorized capital stock of the Parent Company. The quasi-reorganization will reduce the par value of the Parent Company's 145.00 million authorized common shares from ₱100.00 to ₱25.00 and that the 120.00 million authorized preferred shares with par value of ₱25.00 will be reclassified and converted to common shares with par value of ₱25.00. Further, the authorized capital stock will be increased to ₱19.00 billion divided into 760.00 million shares with par value of ₱25.00.

On March 28, 2012, the shareholders of the Parent Company representing at least two thirds (2/3) of the outstanding capital stock ratified the said quasi-reorganization and increase in authorized capital stock.

On December 19, 2012, the Parent Company applied for the said quasi-reorganization and increase in authorized capital stock with the BSP and SEC, respectively. On February 8, 2013, the BSP issued a Certificate of Authority to enable the Parent Company to register its Amended Articles of Incorporation and Amended By-Laws with the SEC.

On March 8, 2013, the Parent Company obtained the SEC's approval for the increase in its authorized capital stock.

The Parent Company incurred costs of ₱40.87 million for the approval/registration of the increase in its authorized capital stock with the SEC and DST for issuance of new shares.

On December 3, 2013, the Parent Company received the "No Objection" Notice from the BSP relative to its application with the SEC for equity restructuring.

On December 11, 2013, the Parent Company received from the SEC the Certificate of Approval of Equity Restructuring which allowed the Parent Company to effect the partial wipe out of Deficit as of December 31, 2012 of ₱8.66 billion against additional paid-in capital of ₱3.94 billion. However, any remaining additional paid-in capital balance shall not be used to wipe out losses that may be incurred in the future without prior approval of the SEC.

Surplus Reserves

As of December 31, 2017 and 2016, surplus reserves consist of reserve for trust business, and self-insurance amounting to ₱105.82 million and ₱105.77 million, respectively.

In compliance with BSP regulations and RA No. 337, *The General Banking Act*, 10.00% of the Parent Company's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Parent Company's authorized capital stock. Surplus reserve for self-insurance represents the amount set aside to cover for losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Deficit

As of December 31, 2017 and 2016, deficit in the statements of financial position includes fair value gain on investment properties amounting to ₱2.68 billion and ₱2.41 billion, respectively, which are not available for dividend declaration. The fair value gain on investment properties will form part of retained earnings available for dividend declaration when the properties are sold and the gain is realized.



The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 differs to a certain extent from the computation following BSP Guidelines.

In the consolidated financial statements, a portion of the Group's deficit corresponding to the net earnings of the subsidiaries and an associate amounting to ₱127.33 million and ₱99.43 million as of December 31, 2017 and 2016, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon declaration and receipt of cash dividends from the investees.

Capital Management

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

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

The Parent Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Parent Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("Bank for International Settlements rules/ratios") and adopted by the BSP in supervising the Group. The Parent Company had complied in full with all its regulatory capital requirements.

As discussed in Note 1, the BSP approved the request of the Parent Company to book ₱1.92 billion revaluation increment resulting from the revaluation of PBCom Tower. Out of the ₱1.92 billion, ₱1.57 billion was included in the carrying value of condominium units for lease included under 'Investment properties' and was considered as part of the unimpaired capital and qualifying capital in the computation of net worth and capital adequacy ratio.

In February 2016, the BSP, through its Report on Examination, directed PBCom to change its accounting treatment for investment properties from the fair value model to the cost model and restating its audited financial statements. On July 17, 2017, the BSP, in its Resolution No. 1189 dated July 13, 2017, approved the request of the Parent Company to continue using the fair value model for the 2017 audited financial statements, and to revert to the cost model only in 2018. The impact of the change in accounting policy for investment properties is disclosed in Note 14. For purposes of regulatory qualifying capital, as approved by the BSP, the Parent Company will be able to continue to include the above ₱1.57 billion revaluation increment in its computation of net worth and capital adequacy ratio.



Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Group's "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which may differ from PFRS in some respects (for example, measurement of investment properties).

The BSP, under BSP Circular No. 538 dated August 4, 2006, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

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

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

*Not all inclusive

On January 15, 2013, the BSP issued Circular No. 781 on Basel III Implementing Guidelines on Minimum Capital Requirements, which provided that the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular went into effect on January 1, 2014.

The Circular defines in greater detail, the quality capital a bank must maintain to cover its risks. These include:

- Tier One capital - comprises the Group's and the Parent Company's core capital resources that are immediately available to sustain the financial stability of the group. Components of tier one capital include:
 - Core-Equity Tier One or CET-1 includes paid-in shares of common stock, retained earnings and accumulated OCI. CET-1 must be the predominant form of Tier One Capital. CET-1 absorbs all deductions to capital mandated by regulation. These deductions include capital invested in affiliates, net deferred tax assets, intangible assets and goodwill items.
 - Alternative Tier One or AT-1 includes other equity type claims on a bank's statement of financial position that are sufficiently subordinate to the claims of depositors and senior



creditors and whose cash flow distributions are not committed and cancellable at the option of the bank.

- Tier Two capital - includes auxiliary items, such as the general loan loss provision and appraisal increment reserves on investment property, that supplement Tier One Capital in sustaining the financial stability of the bank.

Banks must maintain CET-1 capital equivalent to 6.00%, Total Tier One capital equivalent to 7.5% and Total capital equivalent to 10% of regulatory risk weighted assets at all times.

At the end of 2017 and 2016, the Group and the Parent Company reported ratios in excess of the regulatory requirements.

Presented below are the composition of qualifying capital and the related disclosures as reported to the BSP (amounts in millions):

	Consolidated		Parent Company	
	2017	2016	2017	2016
CET-1 Capital	₱10,334	₱8,603	₱10,413	₱8,659
Less: Regulatory Adjustments to CET-1	(1,002)	(1,025)	(1,452)	(1,439)
	9,332	7,578	8,961	7,220
Additional Tier 1 Capital	—	—	—	—
Less: Regulatory Adjustments to AT-1	—	—	—	—
	—	—	—	—
Total Tier 1 Capital	9,332	7,578	8,961	7,220
Tier 2 Capital	2,094	1,999	2,062	1,969
Less: Regulatory Adjustments to Tier 2 Capital	—	—	—	—
Total Tier 2 Capital	2,094	1,999	2,062	1,969
Total Qualifying Capital	₱11,426	₱9,577	₱11,023	₱9,189

The Group's and the Parent Company's RBCAR as reported to the BSP as of December 31, 2017 and 2016 are shown in the table below (amounts in millions):

	Consolidated		Parent Company	
	2017	2016	2017	2016
CET-1 Capital:				
Paid-up common stock	₱12,016	₱12,070	₱12,016	₱12,070
Additional paid-in capital	2,262	814	2,262	814
Retained earnings	(4,159)	(4,230)	(4,091)	(4,184)
Undivided profits	286	96	286	96
Net unrealized gains or losses on AFS-FVTOCI	34	26	34	26
Cumulative foreign currency translation	(1)	8	(1)	8
OCI	(93)	(171)	(93)	(171)
Minority interest in subsidiary banks	(11)	(10)	—	—
	10,334	8,603	10,413	8,659
Less: Regulatory Adjustments to CET-1				
Outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	—	1	2	2
Goodwill	256	256	102	102
Other intangible assets	719	741	353	374
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings	—	—	968	934

(Forward)



	Consolidated		Parent Company	
	2017	2016	2017	2016
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies	₱14	₱15	₱14	₱15
Significant minority investments	13	12	13	12
	1,002	1,025	1,452	1,439
Tier 2 Capital				
Additional Tier 1 Capital	—	—	—	—
Less: Regulatory Adjustments to AT-1	—	—	—	—
	—	—	—	—
Total Tier 1 Capital	9,332	7,578	8,961	7,220
Appraisal increment reserve	1,611	1,596	1,597	1,582
General loan loss provision	483	403	465	387
	2,094	1,999	2,062	1,969
Less: Regulatory Adjustments to Tier 2 Capital	—	—	—	—
Total Tier 2 Capital	2,094	1,999	2,062	1,969
Total Qualifying Capital	₱11,426	₱9,577	₱11,023	₱9,189
Credit risk-weighted assets	₱65,022	₱59,199	₱62,945	₱56,895
Market risk-weighted assets	768	545	768	545
Operational risk-weighted assets	6,289	5,544	5,851	5,315
Total Risk Weighted Assets	₱72,079	₱65,288	₱69,564	₱62,755
CET 1 Capital Ratio	12.95%	11.61%	12.88%	11.51%
Tier 1 Capital Ratio	12.95%	11.61%	12.88%	11.51%
Total Capital Ratio	15.85%	14.67%	15.85%	14.64%

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP methodology of the Parent Company was based on the minimum regulatory capital requirement under BSP Circular No. 639 which involved, first, an assessment of whether the risks covered by the Framework are fully captured; and second, an assessment of other risks the Parent Company is exposed to which are not fully captured and covered under the Framework, and an assessment of whether and how much capital to allocate against these other risks. The ICAAP document is to be submitted by the Parent Company on April 4, 2018.

The ICAAP, which included the discussion on the 2017 Holistic Risk Appetite and Components, as well as the ranges of capital that the Parent Company, should sustain to support the three-year Business Plan under going-concern and stress scenarios, was deliberated upon by the ICAAP Steering Committee, ROC and endorsed to the BOD for approval.

Salient points of the 2018 ICAAP include:

- The Parent Company's total Qualifying Capital for December 31, 2017 fully covers the capital requirement for risks under BSP Circular Nos. 538 ad 639 (Pillar 1 and Pillar 2 risks).
- The Parent Company's resulting operating environment and risk requirements from 2018 to 2020 will be guided by the Capital Development & Sustainability Plan to ensure appropriate capital coverages not only to meet the regulatory and internal capital adequacy requirements but also to ensure execution of the three-year strategic growth within the Board's desired appetite for capital adequacy.
- The Parent Company's statement for Materiality of Risk refers to any factors that could significantly affect the on-going viability of the Parent Company. It is considered the overriding concern of the organization after the capital assessment of the eight risks under the ICAAP as approved by the ICAAP Steering Committee, ROC, and the BOD.



24. Commitments and Contingent Liabilities

In the normal course of operations, the Group has various outstanding commitments and contingent liabilities such as guarantees, forward exchange contracts, and commitments to extend credit, which are not presented in the accompanying financial statements. The Group does not anticipate any material losses as a result of these transactions.

The following is a summary of the Group's and the Parent Company's commitments and contingent liabilities at their equivalent Peso contractual amounts:

	2017	2016
Trust department accounts (Note 25)	₱5,267,279	₱5,683,734
Standby LC	2,074,784	2,222,648
Spot exchange:		
Bought	274,615	422,620
Sold	574,195	234,497
Usance LC outstanding	86,900	117,196
Outstanding shipping guarantees	944,839	1,241,238
Sight LC outstanding	401,085	277,937
Deficiency claims receivable	27,498	27,498
Outward bills for collection	26,772	24,890
Currency forwards:		
Bought	48,688	236,463
Sold	49,665	484,239
Inward bills for collection	51,995	75,654
Items held for safekeeping	157	100
Items held as collateral	9	6
Other contingencies	98,691	56,592

The Group has certain loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial statement impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums that would have a material effect on the financial statements.

The Group is a defendant in legal actions arising from its normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the consolidated and parent company financial statements.

Derivative Financial Instruments

As of December 31, 2017, the Parent Company has outstanding buy US dollar currency forwards with aggregate notional amount of US\$0.98 million, terms ranging from 8 to 33 days, and weighted average forward rate of ₱49.93.

As of December 31, 2016, the Parent Company has outstanding buy US dollar currency forwards with aggregate notional amount of US\$4.76 million, terms ranging from 31 to 36 days, and weighted average forward rate of ₱49.72.

In 2017, 2016 and 2015, total gain (loss) on currency forwards included under 'Trading and securities gain (loss) - others' in the statements of income amounted to (₱3.23 million), ₱7.68 million, and ₱3.25 million, respectively (see Note 26).



25. Trust Operations

Securities and other properties (other than deposits) held by the Parent Company for its customers in its fiduciary or agency capacity are not included in the statements of financial position since these are not assets of the Parent Company. Total assets held by the Parent Company's trust department amounted to ₱5.27 billion and ₱5.68 billion as of December 31, 2017 and 2016, respectively (see Note 24).

As of December 31, 2017 and 2016, government securities (included under 'Investment securities at amortized cost') owned by the Parent Company with total face value of ₱70.00 million are deposited with the BSP in compliance with the requirements of RA No. 337 relative to the Parent Company's trust functions.

Income from the Group's and the Parent Company's trust operations shown under 'Income from trust operations' in the statements of income amounted to ₱15.40 million, ₱16.86 million, and ₱18.30 million in 2017, 2016 and 2015, respectively.

26. Income on Investment Securities

Interest income on investment securities follows:

	2017	2016	2015
Investment securities at amortized cost	₱536,988	₱593,571	₱580,657
Financial assets at FVTPL	153,670	82,445	48,306
	₱690,658	₱676,016	₱628,963

In 2017, 2016 and 2015, the Parent Company's peso-denominated investment securities earned annual interest rates ranging from 2.13% to 8.00%, 2.13% to 8.13%, and 1.63% to 9.13%, respectively, while dollar-denominated investment securities earned annual interest rates ranging from 1.87% to 10.63%, 2.63% to 10.63%, and 3.95% to 9.50%, respectively.

The Group's and the Parent Company's trading and securities gain (loss) - net follows:

	2017	2016	2015
Financial assets at FVTPL	(₱10,014)	₱40,656	(₱43,718)
Derivatives (Note 24)	(3,229)	7,683	3,253
	(₱13,243)	₱48,339	(₱40,465)

27. Employee Benefits

The existing regulatory framework, RA No. 7641, *The Retirement Pay Law*, requires companies with at least ten employees to pay retirement benefits to qualified private sector employees in the absence of any retirement plan in the entity, provided however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.



Defined Benefit Plans

Parent Company

The Parent Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its officers and regular employees. The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost and unfunded actuarial accrued liability. The retirement plan provides a retirement benefit based on applicable percentage of salary (100% - 150%) depending on the number of years of service (minimum of five years), a fraction of a month being considered as one whole month. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust and Wealth Management Group (TWMG) under the supervision of the Retirement Board.

BDI

BDI has three funded, noncontributory defined benefit retirement plans that were created in 1990, 2009 and 2012. The 1990 and 2009 retirement plans cover employees who have rendered full-time service for at least ten years and provide benefits that are based only on years of service and final compensation. The 2012 plan covers substantially all of BDI's officers and regular employees and provides benefits that are based on employee age, years of service and final compensation. BDI's retirement plans provide retirement benefits equal to 100% of the final regular monthly salary for every year of service.

BDI's retirement plans are administered by the Parent Company's TWMG under the supervision of BDI's Retirement and Provident Fund Committee.

RBNI

RBNI has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on employee age, years of service and final compensation. The retirement plan provides retirement benefits equal to 50% of the final monthly salary for every year of service. RBNI's retirement plan is in the form of a trust administered by a local bank.

The latest actuarial valuation studies of the defined benefit retirement plans of the Group were made as of December 31, 2017.

The following table shows the actuarial valuation results for the Group and the Parent Company as of December 31, 2017 and 2016:

	2017		2016	
	Fair Value of Plan Assets	Present Value of Obligation	Fair Value of Plan Assets	Present Value of Obligation
Parent Company	₱457,674	₱478,028	₱401,148	₱452,927
BDI	21,251	22,066	14,948	13,612
RBNI	—	—	7,415	11,947
	₱478,925	₱500,094	₱423,511	₱478,486

The amounts relating to the defined benefit retirement plans are presented in the statements of financial position as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Retirement asset* (Note 16)	₱—	₱1,336	₱—	₱—
Retirement liability** (Note 20)	21,169	56,311	20,354	51,779
Net retirement liability	₱21,169	₱54,975	₱20,354	₱51,779

* Included in 'Other assets'

** Included in 'Accrued interest, taxes and other expenses'



Changes in the present value of the defined benefit obligations as of December 31, 2017 and 2016 are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Balance at January 1	₱478,486	₱525,933	₱452,927	₱503,577
Current service cost	68,081	78,320	64,837	75,524
Interest cost	27,015	26,728	25,816	25,682
Remeasurement gains:				
Actuarial gains arising from deviations of experience from assumptions	(26,373)	(61,615)	(25,087)	(62,723)
Actuarial gains arising from changes in financial assumptions	(7,502)	(31,891)	(5,252)	(32,118)
Benefits paid	(39,613)	(58,989)	(35,213)	(57,015)
Balance at December 31	₱500,094	₱478,486	₱478,028	₱452,927

Changes in the fair value of the plan assets as of December 31, 2017 and 2016 are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Balance at January 1	₱423,511	₱394,842	₱401,148	₱374,103
Contributions	68,849	84,525	67,789	82,127
Interest income	25,466	20,078	22,865	19,079
Return on plan assets (excluding interest income)	712	(16,945)	1,085	(17,146)
Benefits paid	(39,613)	(58,989)	(35,213)	(57,015)
Balance at December 31	₱478,925	₱423,511	₱457,674	₱401,148

The fair values of plan assets by class as of December 31, 2017 and 2016 are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Cash and cash equivalents	₱91,390	₱222,354	₱88,567	₱219,048
Debt instruments:				
Philippine government	236,920	57,844	229,257	53,180
Real estate	19,211	19,431	18,690	18,910
Power, electricity and water distribution	13,938	14,341	13,938	14,341
Holding firms	8,595	8,644	8,081	8,130
Financial intermediaries	—	19,916	—	19,916
Equity instruments:				
Real estate	30,192	23,281	29,425	22,171
Holding firms	27,927	23,118	23,065	15,395
Transportation, storage and communication	12,412	8,910	12,412	8,046
Financial intermediaries	12,243	4,552	12,243	4,552
Wholesale and retail trade	7,520	5,448	7,520	5,448
Power, electricity and water distribution	7,446	3,981	7,446	3,981
Manufacturing	1,580	1,784	—	—
Others	9,178	3,428	5,908	541
Other assets and liabilities	373	6,479	1,122	7,489
	₱478,925	₱423,511	₱457,674	₱401,148



The Group's plan assets are carried at fair value. All equity and debt instruments have quoted prices in an active market. The fair values of other assets and liabilities, which include amounts due from other banks, accrued interest and other receivables and trust fee payables, approximate their carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments and are not exposed to concentration risk.

The Group and the Parent Company expect to contribute ₱101.50 million and ₱99.55 million, respectively, to the defined retirement benefit plans in 2018.

The cost of defined benefit retirement plans, as well as the present value of the benefit obligations, are determined using actuarial valuations, which involve making various assumptions. The principal assumptions used are shown below:

	Parent Company		BDI		RBNI	
	2017	2016	2017	2016	2017	2016
Discount rate:						
At January 1	5.70%	5.10%	4.82%	5.13%	—	4.24%
At December 31	5.80%	5.70%	5.60%	4.87%	—	4.78%
Salary increase rate	7.00%	7.00%	5.00%	5.00%	—	5.00%
Average remaining working life	13	13	13.5	15	—	12

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption as of December 31, 2017 and 2016, assuming all other assumptions were held constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

	Increase (Decrease) in Defined Benefit Obligation			
	Consolidated		Parent Company	
	2017	2016	2017	2016
Increase in discount rate of 0.50%	(₱26,278)	(₱25,875)	(₱24,963)	(₱24,330)
Decrease in discount rate of 0.50%	28,638	28,274	27,184	26,528
Increase in salary increase rate of 0.50%	26,659	25,824	25,283	24,239
Decrease in salary increase rate of 0.50%	(24,746)	(23,938)	(23,489)	(22,490)

The amounts of defined benefit cost included in the statements of other comprehensive income as 'Remeasurement of retirement liability', gross of tax, follow:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Actuarial gains on benefit obligation	₱33,875	₱93,506	₱93,768	₱30,339	₱94,841	₱97,034
Return on plan assets (excluding interest income)	712	(16,945)	4,467	1,085	(17,146)	2,746
Remeasurement gains in OCI	₱34,587	₱76,561	₱98,235	₱31,424	₱77,695	₱99,780

The amounts of retirement cost included in the statements of income follow:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Current service cost*	₱68,081	₱78,320	₱85,171	₱64,837	₱75,524	₱83,147
Net interest expense (Note 19)	1,549	6,650	11,249	2,951	6,603	11,005
Retirement cost	₱69,630	₱84,970	₱96,420	₱67,788	₱82,127	₱94,152

*Included under 'Compensation and fringe benefits' in the statements of income



Shown below is the maturity profile of the undiscounted benefit payments of the Group and the Parent Company as of December 31, 2017 and 2016:

Plan Year	Consolidated	
	2017	2016
Less than five years	₱198,520	₱182,112
More than five to ten years	297,732	296,452
Ten years and above	3,747,020	3,852,293
	₱4,243,272	₱4,330,857

Plan Year	Parent Company	
	2017	2016
Less than five years	₱192,722	₱176,165
More than five to ten years	288,965	287,341
Ten years and above	3,513,718	3,624,599
	₱3,995,405	₱4,088,105

Collective Bargaining Agreement (CBA)

All of the Parent Company's rank and file employees are covered by a CBA, the most recent negotiation having been signed on June 10, 2016, with an effectivity date until December 31, 2017. Negotiations for a new five-year CBA are ongoing and, once signed, will take effect for the period from January 1, 2018 until December 31, 2022. There had been neither dispute nor occurrence of employees' strike for the past years.

Defined Contribution Plans

Parent Company

The Parent Company employs a provident fund scheme where the Parent Company and its covered employees shall contribute 11% and 5% of the employees' basic monthly salary, respectively. Contributions are maintained under the Provident Fund account administered by the Parent Company's TWMG under the supervision of the Retirement/Provident Fund Board. As approved by the Parent Company's BOD on November 27, 2013, new officers hired after December 31, 2013, except those whose terms of employment have been negotiated prior to December 1, 2013, are no longer eligible for inclusion in the Parent Company's provident fund. The Parent Company's BOD, in its meeting held on January 27, 2016, approved a change in vesting for the retirement fund from 5 to 10 years effective for all new hires who sign up starting February 1, 2016.

Contributions paid and accrued by the Parent Company for both the Staff Provident Fund and the Retirement Fund are recognized under 'Compensation and fringe benefits' in the statements of income amounted to ₱103.88 million, ₱124.66 million, and ₱141.87 million in 2017, 2016 and 2015, respectively.

BDI

In addition to its defined benefit plans, BDI also employs three contributory funds where BDI and its covered employees shall both contribute 5% of the employees' regular monthly salary.

Contributions paid and accrued by BDI to the funds recognized in the statements of income under 'Compensation and fringe benefits' amounted to ₱1.20 million, ₱2.45 million and ₱1.75 million in 2017, 2016 and 2015, respectively.



28. Long-term Leases

The Group leases the premises occupied by most of its branches. The lease contracts are for periods ranging from 1 to 4 years and renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear annual rent increase of 5.00% - 10.00%.

The Group's rent expense included under 'Occupancy and other equipment-related costs' in the statements of income amounted to ₱174.35 million, ₱170.28 million, and ₱175.2 million in 2017, 2016 and 2015, respectively. The Parent Company's rent expense included under 'Occupancy and other equipment-related costs' in the statements of income amounted to ₱167.35 million, ₱170.28 million, and ₱169.41 million in 2017, 2016 and 2015, respectively.

Future minimum rentals payable under noncancellable operating leases are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Within one year	₱140,092	₱124,721	₱134,769	₱119,560
Beyond one year but not more than five years	141,987	184,433	128,558	177,514
Beyond five years	—	2,304	—	—
	₱282,079	₱311,458	₱263,327	₱297,074

The Parent Company has also entered into commercial property leases on its investment properties. These noncancellable leases have remaining noncancellable lease terms of between one to five years. The Parent Company recognized rent income, included under 'Rent income' in the statements of income, amounting to ₱548.76 million, ₱454.49 million, and ₱384.15 million, in 2017, 2016 and 2015, respectively.

Future minimum rentals receivable under noncancellable operating leases follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Within one year	₱467,338	₱531,278	₱467,338	₱531,278
Beyond one year but not more than five years	1,011,464	1,142,701	1,011,464	1,142,701
Beyond five years	—	—	—	—
	₱1,478,802	₱1,673,979	₱1,478,802	₱1,673,979

29. Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Information technology	₱81,238	₱85,433	₱90,619	₱73,194	₱78,954	₱84,139
Transaction dues	35,737	34,682	34,570	35,129	34,108	34,137
Fines, penalties and other charges	31,251	32,549	41,388	31,099	32,487	41,341
Litigation and assets acquired - related expenses	29,731	13,781	11,553	25,021	12,845	10,482
Brokerage fees	19,790	20,638	4,889	19,790	20,638	4,889

(Forward)



	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Fuel and lubricants	₱16,354	₱15,893	₱19,445	₱14,080	₱13,863	₱16,716
Stationery and supplies	16,289	20,217	21,456	12,697	17,027	18,417
Travel	12,602	11,375	12,827	5,330	6,127	6,670
Freight	7,604	4,167	4,277	7,589	4,139	4,220
Advertising	7,170	8,977	4,340	5,744	7,467	2,600
Others	112,173	76,001	47,025	102,280	61,888	43,494
	₱369,939	₱323,713	₱292,389	₱331,953	₱289,543	₱267,105

Others include account maintenance charges, contractual services, and Philippine Dealing Exchange Corp. transaction fees.

30. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are 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 DST. Income taxes include corporate income tax, as discussed below, and final taxes paid, which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as ‘Provision for income tax’ in the statements of income.

RA No. 9397, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 30.00% and the interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

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

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 7.50% final tax. RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and FCDUs*, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

In 2011, the BIR issued Revenue Regulations (RR) 14-2011, which prescribes the proper allocation of costs and expenses among the income earnings of financial institutions for income tax reporting. Only costs and expenses attributable to the operations of the RBU can be claimed as deduction to arrive at the taxable income of the RBU subject to the RCIT. All costs and expenses pertaining to the FCDU/EFCDU are excluded from the RBU’s taxable income. Within the RBU, common costs and expenses should be allocated among taxable income, tax-paid income and tax-exempt income using the specific identification or the allocation method.



Provision for income tax consists of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Current:						
Final	₱139,589	₱142,951	₱141,202	₱139,090	₱142,443	₱140,719
MCIT	56,758	—	39,573	56,758	—	39,522
RCIT	15,536	101,070	31,237	531	69,412	—
	211,883	244,021	212,012	196,379	211,855	180,241
Deferred	110,756	(9,200)	274,324	108,727	(5,629)	275,920
	₱322,639	₱234,821	₱486,336	₱305,106	₱206,226	₱456,161

Components of deferred tax assets and liabilities follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Deferred tax assets:				
Allowance for credit and impairment losses	₱515,750	₱510,401	₱472,457	₱472,457
Unearned discounts and capitalized interest	22,062	21,258	—	—
Excess of MCIT over RCIT	12,182	12,163	12,163	12,163
Unamortized past service cost	902	1,031	—	—
Accrued expenses	715	—	—	—
Remeasurement losses on retirement liability	170	981	—	—
Accumulated depreciation on foreclosed properties	—	41	—	—
Accumulated impairment loss on foreclosed assets	—	38	—	—
	₱551,781	₱545,913	₱484,620	₱484,620
Deferred tax liabilities:				
Fair value gain on investment properties	₱1,059,472	₱953,137	₱1,039,383	₱938,325
Revaluation increment credited to surplus free	399,979	399,979	399,979	399,979
Revaluation increment on land	129,507	120,111	129,157	119,761
Branch licenses acquired from business combinations	78,870	78,870	—	—
Excess of fair value over carrying value of the net assets acquired from business combinations	28,216	28,323	—	—
Unrealized foreign exchange gain	9,089	1,420	9,089	1,420
Gain on disposal of foreclosed of properties	8,303	8,303	—	—
Unrealized gain on equity securities carried at FVOCI	7,914	—	7,914	—
Gain on foreclosure of properties	2,093	1,175	—	—
Others	1,265	401	—	—
	₱1,724,708	₱1,591,719	₱1,585,522	₱1,459,485

Deferred tax assets and liabilities are presented in the statements of financial position as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Deferred tax assets	₱55,928	₱59,717	₱—	₱—
Deferred tax liabilities	1,228,855	1,105,523	1,100,902	974,865

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. In assessing the realizability of its deferred tax assets, the Group considers projected future taxable income, reversal of temporary differences, and tax planning strategies.



The Group assessed that not all of its deferred tax assets may be realized in the future. Accordingly, the Group did not set up deferred tax assets on the following temporary differences, NOLCO and excess of MCIT over RCIT:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Allowance for credit and impairment losses	₱1,409,277	₱1,436,514	₱1,098,291	₱1,128,795
Advance rental income	88,499	87,415	88,499	87,415
Unamortized past service cost	54,646	58,270	54,646	58,270
Accrued expenses	38,508	—	38,508	—
Retirement liability	21,169	56,311	20,354	51,779
Excess of MCIT over RCIT	3,769	144	3,769	—
NOLCO	—	48,026	—	—
	₱1,615,868	₱1,686,680	₱1,304,067	₱1,326,259

Details of the Group's NOLCO are as follows:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2014	₱18,256	₱18,256	₱—	₱—	2017
2015	18,226	18,226	—	—	2018
2016	11,544	11,544	—	—	2019
	₱48,026	₱48,026	₱—	₱—	

Details of the Group's MCIT are as follows:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2014	₱36	₱36	₱—	₱—	2017
2015	12,185	89	—	12,096	2018
2016	86	—	—	86	2019
2017	3,769	—	—	3,769	2020
	₱16,076	₱125	₱—	₱15,951	

Details of the Parent Company's MCIT are as follow:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2015	₱39,439	₱27,276	₱—	₱12,163	2018
2017	3,769	—	—	3,769	2020
	₱43,208	₱27,276	₱—	₱15,932	



A reconciliation between the statutory income tax and the effective income tax follows:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Statutory income tax	₱312,402	₱190,410	₱207,005	₱307,142	₱181,883	₱197,839
Tax effects of:						
Nondeductible expenses and others	110,412	264,336	329,504	96,651	247,818	253,446
FCDU income before income tax	(49,987)	(108,893)	(44,460)	(49,987)	(108,893)	(44,439)
Interest income subjected to final tax	(27,418)	(23,480)	(28,272)	(27,601)	(23,100)	(28,031)
Nontaxable income	(16,113)	(26,301)	(70,406)	(14,442)	(35,443)	(18,999)
Changes on unrecognized deferred tax assets	(6,657)	(61,251)	36,729	(6,657)	(56,039)	40,109
Expired NOLCO	—	—	56,236	—	—	56,236
Effective income tax	₱322,639	₱234,821	₱486,336	₱305,106	₱206,226	₱456,161

31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Parent Company's related parties include key management personnel, close family members of key management personnel, affiliates (that is, entities which are controlled, significantly influenced by or for which significant voting power is held by the Parent Company or key management personnel or their close family members and retirement plan for the benefit of the Group's employees).

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

Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has a business relationship with its defined benefit and contribution plans, which it provides trust and management services to the plans. Any investments made in the retirement plans are approved by the Parent Company's Retirement Board. The Parent Company's Retirement Board is comprised of senior officers of the Parent Company. Income earned by the Parent Company (presented as part of 'Income from trust operations' in the statements of income) from such services amounted to ₱4.55 million in 2017, ₱4.46 million in 2016, and ₱4.89 million in 2015. Total deposits maintained by the related party retirement plans with the Parent Company amounted to ₱145.68 million and ₱97.87 million as of December 31, 2017 and 2016, respectively.

Key Management Personnel

Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the Parent Company, directly or indirectly. The Parent Company considers the members of the Senior Management Team to constitute key management personnel for purposes of PAS 24.



Total remunerations of key management personnel are as follows:

	2017	2016	2015
Short-term benefits	₱153,150	₱151,599	₱120,812
Post-employment benefits	7,548	8,058	8,223
	₱160,698	₱159,657	₱129,035

Details on significant related party transactions of the Parent Company follow:

Category	2017		
	Volume	Outstanding Balance	Nature, Terms and Conditions
Significant investors:			
Deposit liabilities	(₱763,897)	₱1,820,405	Savings and time deposit accounts with annual interest rates ranging from 0.1% to 2.375%.
Interest expense	7,827	–	Branch and office space leased for five years ending in various years, with 5% annual escalation.
Rent expense	21,922	–	Five-year lease of branches, subject to pre-termination, with escalation rate of 5%.
Rent income	3,567	–	
Affiliate:			
Deposit liabilities	(88)	14,722	Demand, savings and time deposit accounts with annual interest rates ranging from 0.1% to 1.50%.
Interest expense	115	–	Five-year lease expiring in July 2018, with 5% annual escalation.
Rent income	133	–	
Subsidiaries:			
Deposit liabilities	(27,677)	91,787	Demand and savings deposit accounts with annual interest rates ranging of 0.1%.
Interest expense	304	–	Three-year lease expiring in May 2020 with 7.5% and 10% annual escalation on second and third year, respectively.
Rent income	168	–	
Key management personnel:			
Deposit liabilities	2,440	12,631	Savings and time deposit accounts with annual interest rates ranging from 0.1% to 3.50%.
Interest expense	15	–	
Provident fund:			
Deposit liabilities	19,436	57,290	Savings and time deposit accounts with annual interest rates ranging from 0.1% to 2.00%.
Interest expense	460	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Trust fee	2,379	–	
Retirement fund:			
Deposit liabilities	28,382	88,393	Savings and time deposit accounts with annual interest rates ranging from 0.1% to 2.00%.
Interest expense	709	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Trust fee	2,175	–	
Category	2016		
	Volume	Outstanding Balance	Nature, Terms and Conditions
Significant investors:			
Deposit liabilities	₱2,580,919	₱2,584,302	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.50%.
Interest expense	8,304	–	Branch and office space leased for five years ending in various years, with 5% annual escalation.
Rent expense	17,650	–	Five-year lease of branches, subject to pre-termination, with escalation rate of 5%.
Rent income	1,822	–	

(Forward)



2016			
Category	Volume	Outstanding Balance	Nature, Terms and Conditions
Affiliate:			
Deposit liabilities	₱6,743	₱14,810	Demand, savings and time deposit accounts with annual interest rates ranging from 0.13% to 1.50%.
Interest expense	331	–	–
Rent income	146	–	Five-year lease expiring in July 2018, with 5% annual escalation.
Subsidiaries:			
Deposit liabilities	18,055	119,464	Demand and savings deposit accounts with annual interest rates ranging from 0.13% to 0.50%.
Interest expense	2,855	–	–
Rent income	126	–	One and half year lease expiring in December 2016, fixed rental rate during the entire term of the contract.
Key management personnel:			
Deposit liabilities	(53,605)	10,191	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.50%.
Interest expense	16	–	–
Provident fund:			
Deposit liabilities	5,256	37,855	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.25%.
Interest expense	574	–	–
Trust fee	2,479	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	7,035	60,011	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.25%.
Interest expense	739	–	–
Trust fee	1,983	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
2015			
Category	Volume	Outstanding Balance	Nature, Terms and Conditions
Significant investors:			
Deposit liabilities	(₱1,981,394)	₱3,483	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.50%.
Interest expense	12,522	–	–
Rent expense	15,143	–	Branch and office space leased for five years ending in various years, with 5% annual escalation.
Rent income	2,839	–	Five-year lease of branches, subject to pre-termination, with escalation rate of 5%
Affiliate:			
Deposit liabilities	(3,696)	8,067	Demand, savings and time deposit accounts with annual interest rates ranging from 0.13% to 1.50%.
Interest expense	173	–	–
Rent income	133	–	Five-year lease expiring in July 2018, with 5% annual escalation.
Subsidiaries:			
Deposit liabilities	(170,574)	101,409	Demand and savings deposit accounts with annual interest rates ranging from 0.13% to 0.50%.
Interest expense	2,450	–	–
Interbank loans receivable	617,000	–	Interbank term loans with subsidiary with annual interest rates ranging from 5.25% to 6.25% and terms of 18 to 91 days.
Interest income	(7,602)	–	–
Rent income	126	–	One and half year lease expiring in December 2015, fixed rental rate during the entire term of the contract.
Key management personnel:			
Deposit liabilities	22,872	63,796	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.50%.
Interest expense	603	–	–
Receivable from customers	(28)	376	Personal loans with average interest rate of 7.00% and average term of three years.
Interest income	(39)	–	–
Provident fund:			
Deposit liabilities	27,229	32,599	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.25%.
Interest expense	498	–	–
Trust fee	2,955	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

(Forward)



	2015		
Category	Volume	Outstanding Balance	Nature, Terms and Conditions
Retirement fund:			
Deposit liabilities	₱52,953	₱52,976	Savings and time deposit accounts with annual interest rates ranging from 0.13% to 3.25%. A certain percentage of the monthly ending market value of the fund depending on agreement.
Interest expense	537	—	
Trust fee	1,940	—	

Other Terms and Conditions of Transactions with Related Parties

Outstanding balances at year-end are unsecured and settlement occurs in cash. The Parent Company has not recorded any impairment losses relating to amounts owed by related parties.

Regulatory Reporting

As required by the BSP, the Parent Company discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423, and new DOSRI loans, other credit accommodations and guarantees granted under said Circular:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Total outstanding DOSRI loans	₱25,631	₱22,017	₱16,951	₱16,291
Total outstanding DOSRI loans granted under regulations existing prior to BSP Circular No. 423	25,631	22,017	16,951	16,291
New DOSRI loans granted under BSP Circular No. 423	—	—	—	—
Total outstanding non-DOSRI loans prior to BSP Circular No. 423	51,561,881	43,786,263	49,465,240	41,639,810
Percent of DOSRI loans to total loans	0.05%	0.05%	0.03%	0.04%
Percent of unsecured DOSRI loans to total DOSRI loans	75.20%	45.70%	62.50%	61.76%
Percent of past due DOSRI loans to total DOSRI loans	0.04%	26.38%	0.06%	0.51%
Percent of nonperforming DOSRI loans to total DOSRI loans	0.04%	26.38%	0.06%	0.51%

The amounts of loans and receivables disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as



representative of the bank/quasi-bank. As of December 31, 2017 and 2016, the Parent Company is in compliance with these requirements.

Any violation of the provisions of 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 this Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

32. Financial Performance

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2017	2016	2015
Net income attributable to equity holders of the Parent Company	₱718,699	₱400,052	₱203,301
Weighted average number of common shares outstanding	359,925	299,565	299,565
Basic/diluted earnings per share	₱2.00	₱1.34	₱0.68

As of December 31, 2017, 2016 and 2015, there are no outstanding dilutive potential common shares.

The following basic ratios measure the financial performance of the Group and of the Parent Company:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Return on average equity	6.06%	4.06%	2.52%	6.06%	4.06%	1.63%
Return on average assets	0.77%	0.49%	0.28%	0.79%	0.51%	0.18%
Net interest margin	4.26%	4.42%	4.32%	4.03%	4.05%	3.87%

33. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and SPURA considered as cash and cash equivalents as of December 31, 2017, 2016 and 2015 follow:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Interbank loans receivable and SPURA shown under statements of cash flows	₱472,513	₱260,411	₱229,281	₱472,513	₱260,411	₱229,281
Interbank loans receivable and SPURA not considered as cash and cash equivalents	62,412	49,720	—	62,412	49,720	—
	₱534,925	₱310,131	₱229,281	₱534,925	₱310,131	₱229,281



The following is a summary of noncash activities:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Noncash operating activities:						
Additions to investment properties from settlement of loans (Note 14)	₱40,909	₱75,679	₱34,836	₱38,870	₱75,679	₱31,703
Additions to chattel mortgage from settlement of loans	167,196	28,325	45,471	167,196	28,325	45,471
Amortization of revaluation surplus (Note 13)	306	—	—	306	—	—
Noncash investing activities:						
Transfer to property and equipment from investment properties (Notes 13 and 14)	33,711	—	18,702	33,711	—	18,702
Transfer to investment properties from property and equipment (Notes 13 and 14)	(9,850)	—	—	(9,850)	—	—
Increase in land due to revaluation (Note 13)	—	—	29,971	—	—	28,806
Additional investments in subsidiary in the form of reinvested dividend (Note 7)	—	—	—	—	25,067	—

The changes in liabilities arising from the Group's and the Parent Company's financing activities in 2017 are as follows:

	January 1, 2017	Cash Flows	Foreign Exchange Movement	December 31, 2017
Bills payable (Note 19)	₱10,099,384	₱2,468,233	(₱218)	₱12,567,399
Outstanding acceptances	34,357	28,895	833	64,085
Marginal deposits	162	370	—	532
Total liabilities from financing activities	₱10,133,903	₱2,497,498	₱615	₱12,632,016

34. Approval for Release of the Financial Statements

The financial statements were authorized for issue by the BOD of the Parent Company on April 4, 2018.

35. Standards Issued but not yet Effective

The standards and interpretation that are issued but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. Unless otherwise stated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the Group's financial statements.



Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- PFRS 9, Financial Instruments
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Parent Company has already adopted the 2010 version of PFRS 9 in 2014. The Group will adopt the final version of the standard on the mandatory effective date and will not restate comparative information. In 2017, the Group has performed an assessment of the impact of all three phases of PFRS 9 to its population of financial instruments. This assessment is based on currently available information and may be subject to changes arising from further reasonable information becoming available to the Group when it adopts the final version of PFRS 9 in 2018.

(a) Classification and measurement

The final version of PFRS 9 introduced a new FVTOCI classification for debt financial assets where the objective of the business model is achieved by both collecting contractual cash flows and selling financial assets. In line with the Parent Company's new business model that meet the FVTOCI classification (see Note 3), certain debt securities currently held under the HTC business model are expected to be reclassified to FVTOCI while the rest of the debt securities currently held as HTC will remain to be classified as HTC. Unrealized gains or losses of ₱56.89 million pertaining to the debt securities to be reclassified will be recognized in other comprehensive income upon adoption of the final version of PFRS 9. Debt securities currently held as at FVTPL will remain to be classified as at FVTPL. Loans and receivables will remain to be managed under HTC business model and thus measured at amortized cost.

As the classification for equity securities remain to be irrevocable, equity shares currently held as at FVOCI without recycling to profit or loss will remain to be classified as such upon adoption of the final version of PFRS 9.

(b) Impairment

Per PFRS 9, the Group is required to record expected credit losses (ECL) on all debt-type assets that are not measured at fair value through profit or loss. The new ECL model will result in the earlier recognition of losses enabled through the introduction of a three-stage process to recognize changes in credit quality from the time of initial recognition. This involves measuring 12-month ECL for financial instruments with no significant increase in credit risk since initial recognition and measuring lifetime ECL for instruments with significant increase in credit risk.

Credit life cycle stages

- Stage 1 is comprised of unimpaired financial instruments that have no significant increase in credit risk since initial recognition or where significant increase in credit risk has abated and is not foreseen to recur in the near future (12-month ECL). 12-month ECL are estimated based on the results from default events that are possible within 12 months after the statement of financial position date.



- Stage 2 is comprised of financial instruments experiencing a significant increase in credit risk since initial recognition (Lifetime ECL). Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.
- Stage 3 is comprised of financial instrument with incidence of loss events occurring after initial recognition that is having a significant negative impact on estimated future cash flows. The ECL estimation for Stage 3 financial instruments is based on a lifetime horizon. Considering that there is already an actual loss event, interest income will be recognized based on the net carrying amount of the impaired financial instruments.

The Group underwent a review of its existing credit practices and available credit information to serve as a basis for developing a new “Expected Credit Loss” framework which would help the Group in properly managing credit risk while at the same time adhering to the requirements of the new standard.

The adoption of the final version of PFRS 9 is expected to result in significant changes to the internal credit loss methodology of the Group.

Credit risk at initial recognition

The Group employs a risk rating and scoring system and requires strict adherence to established multi-level approval authority levels in the initial assessment process and recognition of financial instruments. The risk rating system assesses the creditworthiness of a borrower based on factors such as stability, access to financial markets, ability to service outstanding debts, balance sheet strength, and external rating by agencies if applicable. The system also considers the amount and type of facility and security arrangements and is subject to an annual review of its internal processes and controls.

Significant increase in credit risk

Significant increase in credit risk varies by portfolio or product but is generally determined via manifestation of well-defined credit weaknesses that if left uncorrected may affect repayment, necessitating close monitoring

ECL parameters and methodologies

ECL is a probability-weighted amount based on likelihood of whether borrowers will default on their obligations in the future (Probability of Default or PD), estimated loss from a financial instrument given a default occurs (Loss Given Default or LGD), and estimated exposure at a future default date (Exposure at Default or EAD), while incorporating forward-looking economic variables using statistical correlation and experienced credit judgement.

The PD is an estimate of the likelihood of default over a 12-month or lifetime horizon. The PD model is based on historical data correlated to historical, current, and future macroeconomic conditions based on reputable sources. Specific PD methodologies are determined and applied on a per product portfolio basis predicated on common characteristics and behavior.

The LGD is an estimation of the loss from a transaction given a default occurs. It considers the collateral component of an account from acquisition to realization via resale. The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the report date.



Forward-looking information

Developing models using average historical information may not capture the various possible market outlooks in the future. To recognize and include these possibilities, an overlay computation is applied as an adjustment to include forward-looking information critical to the timely and more accurate recognition of ECL. In considering forward-looking information, a comprehensive collection of macroeconomic factors/variables are selected using experienced credit judgement while considering accessibility of reliable information from official reputable sources. Factors are then narrowed down through statistical correlation before application as overlays.

In its review of existing credit practices, the Group ascertained that the new requirements in accounting for expected credit losses in PFRS 9 will have an effect on the 2018 consolidated financial statements.

(c) Hedge accounting

The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Group assessed that the adoption of these new standard will not have any impact to the 2018 consolidated financial statements as the Group has no existing hedges.

- Amendments to PFRS 4, *Insurance Contracts*, Applying PFRS 9, *Financial Instruments*, with PFRS 4
- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

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

The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effectivity date.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*



Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*
PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (for example, personal computers) and short-term leases (that is, leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (that is, the lease liability) and an asset representing the right to use the underlying asset during the lease term (that is, the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

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

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

Deferred Effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*



36. Supplementary Information Under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR 15-2010 hereunder are the details of percentage and other taxes paid or accrued by the Parent Company in 2017:

GRT	₱234,869
DST	168,366
Local taxes	19,398
Fringe benefit taxes	3,682
Others	821
	<u>₱427,136</u>

Withholding Taxes

Details of total remittances in 2017 and outstanding balance of withholding taxes as of December 31, 2017 follow:

	Total Remittances	Balance as of December 31
Final withholding taxes	₱174,889	₱18,018
Withholding taxes on compensation and benefits	174,487	12,246
Expanded withholding taxes	89,722	6,553
	<u>₱439,098</u>	<u>₱36,817</u>

Tax Assessments and Cases

As of December 31, 2017, the Parent Company has outstanding cases filed in courts for various claims for tax refund amounting to ₱181.68 million reported under 'Other assets' in the statement of financial position.

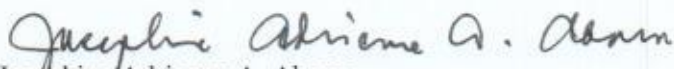


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philippine Bank of Communications
PBCom Tower, 6795 Ayala Avenue
Corner V. A. Rufino Street, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine Bank of Communications and subsidiaries (the Group) and the parent company financial statements of Philippine Bank of Communications (the Parent Company) as at December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017, included in this SEC Form 17-A, and have issued our report thereon dated April 4, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Parent Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Josephine Adrienne A. Abarca
Partner

CPA Certificate No. 92126

SEC Accreditation No. 0466-AR-3 (Group A),
February 9, 2016, valid until February 8, 2019

Tax Identification No. 163-257-145

BIR Accreditation No. 08-001998-61-2018,
February 26, 2018, valid until February 25, 2021

PTR No. 6621219, January 9, 2018, Makati City

April 4, 2018

**PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017**

<u>ATTACHMENT</u>	<u>DESCRIPTION</u>	<u>PAGE NO.</u>
	Reconciliation of Retained Earnings Available For Dividend Declaration (Part 1, 4(c))	1
	Schedules	
A	Financial Assets	2
B	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)	3
C	Amounts Receivable from Related Parties which are eliminated during the consolidation of Financial Statements	4
D	Intangible Assets - Others Assets	5
E	Long-Term Debt	6
F	Indebtedness to Related Parties (Long-Term Loans from Related Companies)	7
G	Guarantees of Securities of Other Issuers	8
H	Capital Stock	9
	Other Required Schedules/Information	
	Map Showing the Relationship Between and Among Related Entities	
	Schedule of Standards and Interpretations	
	Financial Soundness Indicators	

PHILIPPINE BANK OF COMMUNICATIONS
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
AS OF DECEMBER 31, 2017

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		(8,004,223)
Net income during the period closed to Retained Earnings	718,699	
Less: Non-actual/unrealized income net of tax	-	
Equity in net income of subsidiaries and associate	27,906	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents) Unrealized actuarial gain	25,315	
Fair value adjustment (M2M gains)	-	
Fair value adjustment of Investment Property resulting to gain	235,801	
Adjustment due to deviation from PFRS/GAAP-gain	-	
Other unrealized gains or adjustments to the retained earnings		
as a result of certain transactions accounted for under the PFRS	<u>-</u>	
Sub-total	289,022	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRS/GAAP — loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Loss on foreclosure net of tax	<u>(57)</u>	
Sub-total	(57)	
Add: Net income actually earned during the period		429,734
Add (Less):		
Dividend declarations during the period	-	
Appropriations of Retained Earnings during the period	(52)	
Reversals of appropriations	-	
Effects of prior period adjustments	-	
Treasury shares	<u>-</u>	
		<u>(52)</u>
TOTAL RETAINED EARNINGS, END		<u>(7,574,541)</u>
AVAILABLE FOR DIVIDEND		<u>(7,574,541)</u>

Philippine Bank of Communications and Subsidiaries
SCHEDULE A. Financial Assets
As of December 31, 2017

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income accrued
(i)		(ii)	(iii)	
Financial assets at Fair Value through Profit or Loss				
United States of America	998,600	998,542	998,542	-
Republic of the Philippines	1,749,350	1,741,929	1,741,929	6,087
	2,747,950	2,740,471	2,740,471	6,087
Investment Securities at Amortized Cost				
Republic of the Philippines	10,962,970	13,549,673	12,081,538	149,722
8990 Holdings	250,000	249,998	255,567	3,233
Indonesian Government	240,902	240,063	259,917	3,482
First Pacific Co.	990,961	1,000,067	1,033,112	11,699
JG Summit	382,514	377,399	395,684	7,345
	12,827,347	15,417,201	14,025,817	175,481
		0		
Unquoted debt securities classified as loans				
Nat Grid Corp	1,200,000	1,192,501	1,150,067	29,343
Atlantic	206,267	206,013	193,654	3,512
MRT III	1,569,005	1,413,313	1,790,902	0
	2,975,272	2,811,827	3,134,624	32,855
Financial Assets at Fair Value Through Other Comprehensive Income				
Philippine Central Depository, Inc.	21,126	5,213	5,213	-
Bancnet, Inc.	50,000	21,821	21,821	-
Philippine Clearing House Corp.	21,000	10,561	10,561	-
Philippine Dealing System Holding Corp	12,500	4,000	4,000	-
Club Filipino	1	215	215	-
Tagaytay Golf and Country Club	1	0	0	-
Valley Golf Club	2	550	550	-
WackWack Golf and Country Club	2	48,000	48,000	-
Metropolitant Club	1	200	200	-
Tower Club	1	80	80	-
		90,639	90,639	0

(i)	Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by the others for which the amounts in the aggregate are not more than two percent of total assets.
(ii)	State the basis of determining the amounts shown in the column. This column shall be totalled to correspond to the respective balance sheet caption or captions.
iii)	This column may be omitted if all amounts that would be shown are the same as those in the immediately preceding column.

Philippine Bank of Communications and Subsidiaries

SCHEDULE B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related parties)

As of December 31, 2017

	Name and Designation of Debtor	Ending Balance as of December 31, 2016	Additions	Amounts Collected	Amounts written off	Current	Not Current	Ending Balance as of December 31, 2017
		NONE TO REPORT						

(i)	Show separately accounts receivables and notes receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms of repayment and collateral, if any.
(ii)	If collection was other than in cash, explain.
(iii)	Give reasons for write off.

Philippine Bank of Communications and Subsidiaries
SCHEDULE C. Amounts Receivable from Related Parties which are eliminated during the consolidation of Financial Statements

As of December 31, 2017

[illegible]

Philippine Bank of Communications and Subsidiaries
SCHEDULE D. Intangible Assets - Others Assets
As of December 31, 2017

	Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
	(i)		(ii)	(ii)		(iii)	
	Branch License	365,300	-	-		-	365,300
	Software Cost	415,866	30,358	(67,345)			378,879
(i)	The information required shall be grouped into (a) intangibles shown under the caption in intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.						
(ii)	For each change representing anything other than an acquisition, clearly state the nature of the change and other accounts affected. Describe cost of additions representing other than cash expenditures.						
(iii)	If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.						

* Provision for impairment

Philippine Bank of Communications and Subsidiaries
SCHEDULE E. Long Term Debt
As of December 31, 2017

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long term debt" in related balance sheet	Amount shown under caption "Long Term Debt" in related balance sheet	Interest Rate	Maturity Date
(i)		(ii)	(iii)		
NONE TO REPORT					
(i) Include in this column each type of obligation authorized.					
(ii) This column is to be totaled to correspond to the related balance sheet caption.					
(iii) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.					
(iii) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.					

Philippine Bank of Communications and Subsidiaries
SCHEDULE F. Indebtedness to Related Parties (Long-Term Loans from Related companies)
As of December 31, 2017

	Name of related party	Balance at beginning of period	Balance at end of period
	(i)		(ii)
	NONE TO REPORT		
(i)	<i>The related parties named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.</i>		
(ii)	<i>For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.</i>		

Philippine Bank of Communications and Subsidiaries
SCHEDULE G. Guarantees of Securities of Other Issuers
As of December 31, 2017

	Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
			(i)		(ii)
	NONE TO REPORT				
(i)	Indicate in a note any significant changes since the date of the last balance sheet filed. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.				
(ii)	There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of interest", or "Guarantee of dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.				

Philippine Bank of Communications and Subsidiaries
SCHEDULE H. Capital Stock
As of December 31, 2017

[illegible]

	Dec 2017 (Conso)	Dec 2016 (Conso)	Dec 2017 (Parent)	Dec 2016 (Parent)
LIQUIDITY RATIOS				
Liquid assets	51.27%	49.40%	52.10%	50.19%
Liquid Assets	36,264,216	31,193,794	35,969,963	30,718,284
Total Deposits	70,735,817	63,145,981	69,045,014	61,199,101
Liquid Assets to Total Assets	36.55%	36.06%	36.95%	36.40%
Liquid Assets	36,264,216	31,193,794	35,969,963	30,718,284
Total Assets	99,220,250	86,498,733	97,359,678	84,382,034
Loans to Deposit	75.43%	72.99%	74.76%	72.39%
Loans and receivables (net)	53,352,967	46,089,437	51,619,999	44,303,654
Total Deposits	70,735,817	63,145,981	69,045,014	61,199,101

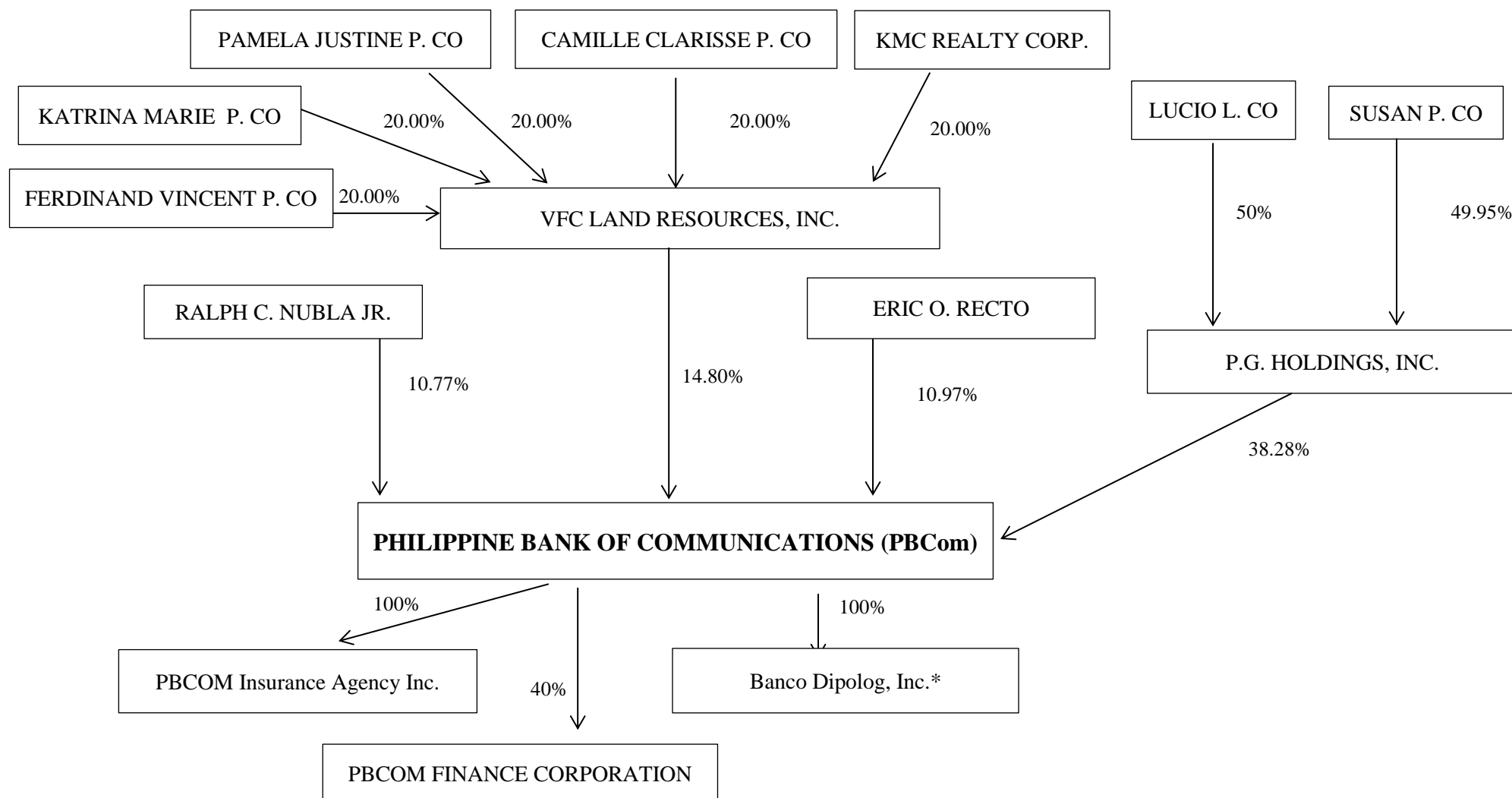
SOLVENCY RATIOS

Debt Ratio	86.97%	87.54%	86.71%	87.21%
Total Liabilities	86,289,888	75,717,002	84,419,950	73,592,019
Total Asset	99,220,250	86,498,733	97,359,678	84,382,034
Debt to Equity Ratio	667.34%	702.27%	652.41%	682.04%
Total Liabilities	86,289,888	75,717,002	84,419,950	73,592,019
Total Equity	12,930,362	10,781,731	12,939,728	10,790,015
Asset to Equity Ratio	767.34%	802.27%	752.41%	782.04%
Total Asset	99,220,250	86,498,733	97,359,678	84,382,034
Total Equity	12,930,362	10,781,731	12,939,728	10,790,015
Interest Rate Coverage Ratio	198.26%	161.10%	202.52%	162.10%
Earnings before interest & tax	2,101,094	1,673,486	2,022,408	1,582,633
Interest Expense	1,059,752	1,038,786	998,603	976,356

PROFITABILITY RATIOS

Return on Assets	0.77%	0.49%	0.79%	0.51%
Net Income	718,702	399,879	718,699	400,051
Average Assets	92,859,492	81,287,525	90,870,856	79,173,044
Return on Equity	6.06%	4.06%	6.06%	4.06%
Net Income	718,702	399,879	718,699	400,051
Average Equity	11,856,047	9,852,877	11,864,872	9,860,613
Net Interest Margin	4.26%	4.42%	4.03%	4.05%
Net Interest Income	2,901,557	2,595,954	2,665,009	2,295,836
Average Earning Assets	68,093,406	58,766,295	66,051,278	56,643,344
Cost to Income Ratio	76.31%	84.34%	75.48%	84.83%
Total Operating Expenses	3,351,455	3,417,072	3,065,744	3,110,881
Total Operating Income	4,392,105	4,051,509	4,061,643	3,667,213
Net Profit Margin	16.36%	9.87%	17.69%	10.91%
Net Income	718,702	399,879	718,699	400,051
Gross Income	4,392,105	4,051,509	4,061,643	3,667,213
Basic Earnings per Share	2.00	1.34		
Net Income	718,700	400,052		
No of Common/ Preferred Sha	359,925	299,565		

PHILIPPINE BANK OF COMMUNICATIONS
CONGLOMERATE MAP/ORGANIZATIONAL STRUCTURE
AS OF DECEMBER 31, 2017



*On 11 December 2017, the Securities and Exchange Commission approved the Articles and Plan of Merger executed by and among Banco Dipolog, Inc. A Rural Bank (Banco Dipolog), Rural Bank of Nagcarlan, Inc. and Rural Bank of Kabasalan (Zamboanga del Sur), Inc., with Banco Dipolog as the surviving bank.

PHILIPPINE BANK OF COMMUNICATIONS

Below is the list of all Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2017:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and qualitative characteristics		√		
PFRSs Practice Statement Management Commentary		√		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	√		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	√		
	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	√		
	Amendment to PFRS 1: Meaning of Effective PFRSs			√
PFRS 2	Share-based Payment			√
	Amendments to PFRS 2: Vesting Conditions and Cancellations			√
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			√
	Amendment to PFRS 2: Definition of Vesting Condition			√
	Amendments to PFRS 2, Share-based Payment, Classification and Measurement of 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 Arrangements			√
PFRS 4	Insurance Contracts			√
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			√
	Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4		√	
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 PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and 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*	√		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	√		
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9		√	
	Amendment to PFRS 7, Servicing Contracts	√		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	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 and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			√
	Amendment to PFRS 8: Aggregation of segments, reconciliation of the total of the reportable segments' assets to the entity's assets			√
PFRS 9**	Financial Instruments (2009 version)	√		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	√		
	Financial Instruments (2014 version)		√	
	Financial Instruments (2015 version)		√	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		√	
PFRS 10	Consolidated Financial Statements	√		
	Amendments to PFRS 10: Transition Guidance			√
	Amendments to PFRS 10, PFRS12 and PAS27: Investment Entities			√
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		√	
	Amendments to PFRS 10, PFRS 12 and PAS 28, 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 10, PFRS12 and PAS27: Investment Entities			√
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			√
	Amendment to PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			√
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			√
PFRS 15	Revenue from Contracts with Customers		√	
	Amendments to PFRS 15, Clarification to PFRS 15		√	
PFRS 16	Leases		√	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	√		
	Amendment to PAS 1: Capital Disclosures	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income*	√		
	Amendments to PAS 1, Disclosure Initiative	√		
PAS 2	Inventories			√
PAS 7	Statement of Cash Flows	√		
	Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative	√		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	√		
PAS 10	Events after the Reporting Period	√		
PAS 11	Construction Contracts			√
	Income Taxes	√		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 12	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	√		
	Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses	√		
PAS 16	Property, Plant and Equipment	√		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			√
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			√
	Amendments to PAS 16 and PAS 41: Bearer Plants			√
PAS 17	Leases	√		
PAS 18	Revenue	√		
PAS 19 (Amended)	Employee Benefits	√		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	√		
	Amendments 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	√		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			√
PAS 27 (Amended)	Separate Financial Statements	√		
	Amendments to PFRS 10, PFRS12 and PAS27: Investment Entities	√		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	√		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	√		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			√
	Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			√
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)		√	
PAS 29	Financial Reporting in Hyperinflationary Economies			√
PAS 31	Interests in Joint Ventures			√
PAS 32	Financial Instruments: Disclosure and Presentation	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	Amendment to PAS 32: Classification of Rights Issues			√
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	√		
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	√		
	Intangible Assets	√		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 38	Amendments to PAS 38 : Proportionate Restatement of Accumulated Depreciation on Revaluation			√
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization			√
	Amendments to PAS 16 and 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 and PFRS 4: Financial Guarantee Contracts	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	√		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	√		
	Amendment to PAS 39: Eligible Hedged Items			√
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	√		
PAS 40	Investment Property	√		
	Amendment to PAS 40: Investment Property	√		
	Amendments to PAS 40, Investment Property, Transfers of Investment Property		√	
PAS 41	Agriculture			√
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			√
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			√
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			√
IFRIC 4	Determining Whether an Arrangement Contains a Lease			√
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			√
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			√
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			√
IFRIC 8	Scope of PFRS 2			√
IFRIC 9	Reassessment of Embedded Derivatives	√		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	√		
IFRIC 10	Interim Financial Reporting and Impairment			√
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			√
IFRIC 12	Service Concession Arrangements			√
IFRIC 13	Customer Loyalty Programmes			√
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			√
	Uncertainty over tax treatments			√
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			√
IFRIC 15	Agreements for the Construction of Real Estate			√
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			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			√
IFRIC 21	Levies			√
IFRIC 22	Foreign Currency Transactions and Advance Consideration		√	
SIC-7	Introduction of the Euro			√
SIC-10	Government Assistance - No Specific Relation to Operating Activities			√
SIC 12	Consolidation - Special Purpose Entities			√
SIC 13	Amendment to SIC 12: Scope of SIC 12			√
	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			√
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			√

***This standard has been early adopted by the Bank*