SEC Number **PW-686**
Company TIN **000-263-340**

PHILIPPINE BANK OF COMMUNICATIONS
(Company's Full Name)

PBCOM Tower, 6795 Ayala Avenue corner V.A. Rufino Street, Makati City
(Company's Address: No. Street City/Town/Province)

830-7000
(Company's Telephone Number)

December 31
(Fiscal Year Ending)
(Month & Day)

3rd Tuesday of June
Annual Meeting

SEC Form 17-A
(Annual Report Pursuant to Section 17 of the Securities Regulation Code
And Section 141 of the Corporation Code)
(FORM TYPE)

N/A
Amendment Designation (If Applicable)

None
(Secondary License Type, if any)

Angelo Patrick F. Advincula	904-193-248	June 26, 1970
(Company Representative)	(TIN)	(Birth Date)

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended . December 31, 2017 .

2. SEC Identification Number. PW-686 . 3. BIR Tax Identification No. 000-263-340

4. Exact name of issuer as specified in its charter. Philippine Bank of Communications .

5. Philippines
Province, country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

PBCOM Tower, 6795 Ayala Avenue cor. V.A. Rufino Street, Makati City 1226 .
7. Address of principal office Postal Code

. (632) 830-7000 .
8. Issuer's telephone number, including area code

. N/A .
9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of SRC, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
. Common	480,645,163 shares .

.

11. Are any or all of the securities listed on a Stock Exchange?

Yes [X] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

. Philippine Stock Exchange . . Common Stock .

12. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

        Yes [/] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.

        Yes [/] No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

Non-affiliated shares	-	118,591,554
Closing price as of March 20, 2018	-	₱23.90
Aggregate market value of voting stock	-	₱ 2,834,338,140.60

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. The Company

Philippine Bank of Communications ("PBCOM" or the "Bank") was incorporated as one of the earliest non-American foreign banks in the country on August 23, 1939. It received the authority to engage in commercial banking from the then Bureau of Banking of the Department of Finance under the Philippine Commonwealth, with a capitalization of Two Million Pesos. The Bank commenced operations on September 4, 1939. However, its operations were temporarily interrupted during World War II, but were immediately reconstituted in 1945 through the infusion of fresh funds. The Bank started under full Filipino ownership in 1974 when a group of industrialists led by Ralph Nubla Sr. bought majority of the Bank's outstanding shares.

The Bank is a registered government securities dealer, having been granted the license on December 14, 1981. It also has a Trust license which was approved on August 24, 1961.

PBCOM acquired a license to operate as an expanded commercial bank from the *Bangko Sentral ng Pilipinas* ("Bangko Sentral" or "BSP") on December 24, 1993 and operated as such until the year 2000. In order to focus on its core strengths and maximize utilization of available resources, the Bank applied for the conversion of its expanded commercial bank license into a regular commercial banking license which was approved by the Monetary Board of the BSP on March 31, 2000. PBCOM has since opted to capitalize on its core strength by focusing on and pursuing traditional commercial banking operations. In December 2000, the Bank acquired 100% of Consumer Savings Bank as part of its strategy to expand its consumer banking business.

On July 26 2011, the major shareholders of the Bank, namely the Chung, Luy, and Nubla Groups, signed a Memorandum of Agreement (MOA) with a group of investors led by ISM Communications Corporation (the "ISM Group"), involving the sale of their entire stake in the Bank to the ISM Group and the commitment of the Chung and Nubla groups to reinvest the proceeds of the sale of their respective shares amounting to approximately ₱2.8 Billion in the Bank.

On October 13, 2011, the Monetary Board approved the acquisition of PBCOM by the ISM Group.

On December 23, 2011, the acquisition by the ISM Group of a controlling interest in the Bank was successfully transacted through the facilities of the Philippine Stock Exchange.

On December 27, 2011, the Chung and Nubla Groups reinvested ₱2.4 Billion as deposits for future subscription of PBCOM shares of stock. Another ₱0.4 Billion was deposited in March 2012 and additional P22 Million in April 2012 to complete their commitment of approximately P2.8 Billion.

On May 31, 2012, the LFM Properties Group deposited ₱0.72 Billion for future subscription to PBCOM shares of stock. Another ₱30 Million was deposited by the LFM Properties Group on October 24, 2012.

On February 8, 2013, BSP issued a Certificate of Authority to the Bank for it to register its Amended Articles of Incorporation and Amended By-Laws with the SEC.

On March 8, 2013, the Bank obtained approval from SEC for a quasi-reorganization and an increase in authorized capital stock. The Articles of Incorporation was amended to implement the following:

a. Reclassification of Bank's existing 120,000,000 preferred shares to common shares;
b. Reduction of the par value of all its common shares from ₱100 per share to ₱25 per share; and
c. Increase in authorized capital stock to ₱19,000,000,000 divided into 760,000,000 common shares with a par value of ₱25 per share.

The reclassification of the said preferred shares to PBC common shares took effect on March 19, 2013. On December 2013, the Bank received the approval of both the BSP and SEC to apply ₱3.94B in APIC to partially wipe out the bank's outstanding deficit.

On March 26, 2014, the Bank exited from the 10-years Financial Assistance Agreement with PDIC by settling the loan of P7.6 Billion which represents financial assistance by the latter to the Bank in 2004.

The subscription by P.G. Holdings (PGH) to the new PBCOM shares amounting to ₱5.975 Billion was approved by BSP on September 23, 2014. The first installment of P1.793 Billion was paid by PGH on September 25, 2014. Subsequently on October 1, 2014, VFC Land Resources Inc. (VFC) bought ₱1.95 Billion PBCOM shares from ISM Communications Corporation. PGH and VFC are owned by retail tycoon Lucio Co, bringing his total stake in PBCOM to 49.99%.

PGH paid the last installment of its subscribed shares, amounting to P1.39 Billion; last September 11, 2017, the same amount was paid to the Bank last September 22, 2015 and June 29, 2016.

Business of Registrant

PBCOM offers a wide range of products and services to clients. These include basic commercial banking services such as deposit products, credit and loan facilities, trade-related services, treasury and foreign exchange trading, cash management services and Trust and Investment Management services.

Deposit products and services include peso, dollar and third currency savings, checking and time deposit accounts, ATM accounts, foreign and domestic remittance services, cash management services namely deposit pick-up and cash delivery, payroll and check-writing services. Ancillary services such as safety deposit boxes and manager's checks, demand drafts, acceptance of tax and SSS payments are also available. These products are offered on a retail basis to individuals and to corporate clients as well.

Credit and loan facilities include working capital financing, post-dated check discounting, specialized lending programs such as mortgage and contract-to-sell financing. Structured Products including trade financing were introduced in August 2005. The Bank continues to see the potential of the expanding consumer market. In 2012, the Bank launched home and auto loans while the personal loan product was launched in April 2013.

Trade-related services include import LCs, standby LCs, credit bank guaranty and shipside bond, export LC advising, export packing credits & export bills negotiation and collections, trade financing of receivables and payables, domestic LCs and trust receipt financing. These services are financing facilities offered to importers and exporters.

Treasury products include dealership and brokering of government securities and commercial papers, both domestic and international, deposit substitutes like promissory notes and repurchase agreements, foreign exchange proprietary trading and commercial client servicing.

Trust services include investment management services, personal trust funds, escrow agency services, employee benefit trust services and estate planning.

Contribution to revenue

The contribution to sales/revenues from the Bank's products and services is broken down as follow: (1) interest income derived from lending, investment securities and others receivables accounted for 72.65% of gross revenues while (2) other operating income consisting of trading gains, service charges, fees and commissions, income from trust operations, profit/loss from asset sold, fair value gain/(loss) from investment properties, foreign exchange gain/loss, rental income and miscellaneous income accounted for 27.35% of the Bank's gross income.

The Bank does not maintain any branch or sales office abroad. Hence, all revenues are generated domestically.

Distribution Methods of Products and Services
The Parent Bank's liability and ancillary products and services are distributed primarily through its 85 branches. These branches are supported by a network of 144 automated teller machines deployed in strategic branch sites including 60 off-site locations.

PBCOM clients may also access and conduct its transactions through the Bank's Internet and Mobile Banking facilities, which the BSP approved for launching last June 21, 2017 and September 28, 2018; respectively.

Competition
As of end 2017, the Philippine commercial banking industry is composed of 20 commercial banks (KB) of which 5 are private domestic commercial banks and 15 are foreign banks with either established subsidiaries or foreign branch licenses.

Patents, Trademarks, Licenses, Franchises, Concessions, and Royalty
There are no outstanding patents, trademarks, copyrights, franchises, concessions, and royalty agreements held as of December 31, 2017.

Customers
PBCOM has nurtured and grown a strong core clientele in the Filipino-Chinese community over the years and this has become a significant market for the Bank. Today, the Filipino-Chinese market continues to be its major customer base despite the Bank's recent success in expanding into other markets where the larger universal banks dominate. The Bank continues to strengthen its presence in the middle market by focusing on the products that will address the needs of these customers.

Subsidiaries and Affiliates
The Bank acquired two Rural Banks in 2014, Rural Bank of Nagcarlan Inc. (RBNI) on July 28, 2014 and Banco Dipolog Inc. (BDI) on September 8, 2014.

RBNI was registered with the Securities and Exchange Commission on May 31, 1962 with Registration No. 20816. RBNI was authorized by the Bangko Sentral ng Pilipinas (BSP) on June 2, 1962 to engage in rural banking business. Its head office is located at 692 Jose Coronado St., Nagcarlan, Laguna and has 6 branches located in various municipalities of Laguna.

BDI was formally organized under the Corporation Code of the Philippines on October 17, 1957 and the first bank established in Dipolog City and in the Zamboanga Peninsula. It is one of the leading rural banks in Southern Philippines. Another rural bank, Rural Bank of Kabasalan, Inc. (RBKI), from an earlier acquisition, was in the process of consolidation with BDI.

To capitalize on the strength of its Rural Banks, PBCOM merged BDI, RBNI and RBKI with BDI as the surviving entity. BSP's Monetary Board approved the merger last December 11, 2017. The merger of the three entities brings BDI network to 18 branches, 7 Microfinance Banking Office and 1 Extension Office.

PBCOM Insurance Services Agency, Inc. (PISAI) was incorporated and registered with the Securities and Exchange Commission on May 9, 2014 to engage primarily in the business of soliciting and promoting insurance products. The company offers a range of insurance agency services specific to life and investment-linked products to meet customers' wealth management and risk protection needs.

PBCOM Finance Corporation was incorporated and registered with the SEC on January 9, 1980 to provide, grant, and/or extend credit facilities to any person, business, juridical or otherwise. It is 40% owned by the

Bank while the remaining 60% is owned by various individual shareholders. Its principal place of business is located at 7th floor, PBCOM Building, 214-216 Juan Luna St. Binondo, Manila.

Transaction with and/ or Dependence on Related Parties

The Bank's related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members, associates and post-employment benefits for the benefit of the Bank's employee.

As required by BSP, the Bank discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). As of December 31, 2017 the Bank is compliant with DOSRI rules and regulation.

The Bank's related party transactions are presented and discussed in Note 31 of the Audited Financial Statements.

Effect of Existing or Probable Government Regulations

Bangko Sentral ng Pilipinas

The Bank fully complies with the required capitalization for commercial banks without expanded banking licenses (non-unibanks) as prescribed by the BSP. The Bank's consolidated qualifying capital as of end-December 31, 2017 stood at ₱11.43 Billion while its capital to risk assets ratio under the BASEL III reporting standards covering credit, market and operational risks as reported to BSP remained well above the 10% prescribed cap at 15.85%.

Bureau of Internal Revenue

RA No. 9337, An Act Amending the National Internal Revenue Code, provides that starting January 1, 2009, the regular corporate income tax rate (RCIT) shall be 30% while interest expense allowed as a deductible expense is reduced to 33% of interest income subject to final tax.

A Minimum Corporate Income Tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess MCIT over 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 year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (interest income from loans to residents) is subject to 10% income tax. Income from FCDU transactions, other than offshore and onshore, is subject to the 30% RCIT or 2% MCIT whichever is applicable.

On March 15, 2011, the BIR issued RR 4-2011 which prescribes the attribution and allocation of expenses between the FCDUs/EFCDUs or OBUs and RBU and within RBU.

Research and Development Activities

The bank offers basic commercial banking products and services that require no significant amount to be spent on product research & development.

Employees

As of December 31, 2017 the bank has 1,127 employees with 766 officers and 361 rank and file. All rank and file employees are covered by a 2-year collective bargaining agreement (CBA) signed last June 10, 2016, with effect until December 31, 2017. Negotiations for a new CBA are ongoing. There had been neither dispute nor occurrence of employees' strike for the past years.

Risk Management

PBCOM applies risk management across the entire organization — from the Board of Directors, Senior Management, Business Segments and Groups, Business Centers, support units, and to individual employees; as well as in specific functions, programs, projects and activities. Implementation of the Framework contributes to strengthening management practices, decision making and resource allocation, and increasing shareholder value; while protecting the interest of its clients, maintaining trust and confidence, and ensuring compliance with regulations.

Enterprise risk management (ERM) is the framework of policies, processes and systems, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The Risk Oversight Committee (ROC) assists the Board of Directors in the effective discharge of its function in overseeing the enterprise risk management program of the Bank, its subsidiaries and its trust unit. Its responsibilities are to:

1. *Oversee the risk management framework.* The committee shall oversee the enterprise risk management framework and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.
2. *Oversee the adherence to risk appetite.* The committee shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.
3. *Oversee the risk management function.* The committee shall be responsible for the appointment/selection, remuneration, and dismissal of the Chief Risk Officer (CRO). It shall also ensure that the risk management function has adequate resources and effectively oversees the risk taking activities of the Bank.

The Enterprise Risk Management/ICAAP Group is the ROC's implementing arm in carrying out its functions.

Enterprise Risk Management Control Framework Model

PBCOM built its enterprise risk management system based on the concepts of the COSO Enterprise Risk Management – Integrated Framework as its model. The ERM Framework and related policies, procedures and methods are further refined with regulatory guidelines to ensure compliance to external rules and regulations.

Business Objective and ERM Components

The enterprise risk management framework for PBCOM's goals can be summarized as the Management setting the strategic objectives, selecting the strategy and laying down more specific objectives throughout PBCOM; guided by its mission and vision. The overall objectives can be categorized into:

- Strategic – high-level goals, aligned with and supporting its mission
- Operations – effective and efficient use of its resources
- Reporting – reliability of reporting
- Compliance – compliance with applicable laws and regulations.

Governance, Risk and Compliance Control (GRC)

GRC is the general term encompassing PBCOM's approach to corporate governance, enterprise risk management and corporate compliance with applicable laws and regulations.

- Corporate Governance – The system whereby shareholders, creditors, and other stakeholders of PBCOM ensure that Management enhances the value of the Bank as it competes in an increasingly global market place. It is the framework of rules, systems and processes in and of PBCOM that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to the stockholders.
- Risk Management – The process, effected by PBCOM's Board of Directors, Management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the Bank, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the Bank's objectives. It also refers to the architecture that is used to manage risk; that includes risk management principles, a risk management framework and a risk management process.
- Compliance – Adherence to applicable laws, regulations, directives, rules of professional conduct and related or similar matters.

The interrelated functions primarily involved in the implementation of the PBCOM's Governance, Risk and Control system are Compliance Group, Internal Audit Group and Enterprise Risk Management/ICAAP Group.

Risk Vision Statement
To protect and optimize PBCOM's enterprise value through effective risk management.

Risk Mission Statement
To develop risk awareness and a risk/return consciousness in the Bank in order to protect deposits, preserve capital and ensure adequate return on capital.

ERM Philosophy
PBCOM recognizes that enterprise risk management is fundamental for its safe and sound operation and sustainable growth. It ensures business success through balanced risk and reward, operational excellence and conformance to the highest ethical standards and regulatory requirements.

Enterprise Risk Management in PBCOM is aligned to its business objectives and strategies. It operates at all levels and in all units of PBCOM that continually manage risk in an environment fostered by an appropriate governance structure, a strong "control culture" and a proactive process of identification, understanding, assessment and mitigation of all its material risks.

ERM Objectives
- Identify, measure, manage and control risks inherent in PBCOM's activities or embedded in its portfolio.
- Define and disseminate risk management philosophy and policies.
- Assist risk-taking business and operating units in understanding and measuring risk/return profiles.
- Develop a risk management infrastructure that includes policies and procedures, organization, limits and approval authorities, MIS and reporting, systems and risk models.
- Promote a risk awareness and strong "control culture" in PBCOM.

Capital Management
PBCOM's capital management framework involves providing shareholders optimal returns within the ability of the capital to protect the interests of all the bank's stakeholders. The framework involves monitoring both capital requirements and capital resources to ensure:
- Qualified capital remains above minimum requirements of ten (10) percent of risk weighted assets;

- Quality of capital resources aligns with the risks present or to be taken to achieve growth & return and;
- Prudent balance between the growth and return required of strategic plans and the continuing institutional strength of the Bank.

PBCOM consistently maintains a ratio of qualifying capital to risk weighted assets that are in excess of the ten (10) percent minimum requirements of Philippine Banking Regulations.

The Bank in addition conducts an annual Internal Capital Adequacy Assessment Process (ICAAP), along with its strategic planning exercise. The ICAAP provides the bank the opportunity to:

- Articulate its holistic risk appetite, strategic growth and return targets;
- Identify the businesses, products and services the bank will pursue or use to achieve the targets;
- Define and measure the risks each business, product or service will create;
- Consider how the bank will mitigate and manage the identified risks;
- Determine the amount and the quality of the capital resources necessary to sustain financial strength through a risk event;
- Conduct stress tests to aid in identifying break points and vulnerabilities; and
- Develop capital build-up and contingency plans.

The ICAAP is a collaborative effort of the Management and the Board of Directors. PBCOM submits the documentation of the results of its ICAAP to the supervisory review and examination of the Bangko Sentral ng Pilipinas.

The regulatory qualifying capital of the Bank consists of Common Equity Tier 1 and Additional Tier 1 is comprised of paid-up common stock, retained earnings including current year profit and surplus reserves less required deductions such as unsecured credit accommodations to DOSRI, and goodwill. The other component of regulatory capital is Gone-Concern Capital (Tier 2), which includes appraisal increment reserves (as authorized by the Monetary Board) and general loan loss provision.

The Bank's capital charge for credit risk is computed at 10% of credit risk-weighted on- and off- balance sheet assets. Risk weights of on-balance sheet assets are based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions as listed in BSP Circular No. 538. For off-balance sheet assets, the risk weights are calculated by multiplying the notional principal amount by the appropriate credit conversion factor as specified in BSP Circular No. 538.

Market risk capital charge is computed according to the methodology set under BSP Circular No. 360, as amended by BSP Circular No. 538 using the standardized approach. Under this approach, capital for market risk is equivalent to 10% of market risk-weighted assets that cover interest rate, equity and foreign exposures of the bank.

Operational risk capital charge is computed using the Basic Indicator Approach, under which capital for operational risk is equal to 15% of the Bank's average of the previous three years of positive annual gross income.

Market, Liquidity and Interest Rate Risk Management

Market risk arises from adverse fluctuations in the market value of financial instruments in both on- and off-balance sheet items. The Bank employs Value-at-Risk (VaR) using a 99% one-tailed confidence level to measure market risk while a regular back testing program is conducted to ensure an accurate and robust VaR model. Stress Testing is also employed to determine the earnings impact of extreme market movements not captured by VaR calculations. A system of risk limits that reflect the Bank's level of capital, expected returns and the overall risk appetite is used to manage market risk. These limits include

the VAR limit, Nominal Position limit, and Stop-loss limit. The Bank also uses Market Risk Assessment Matrix to assess the overall market risk profile of the Bank.

Liquidity risk refers to the possibility that the Bank will be unable to meet its financial obligations in any currency. The Bank employs liquidity ratios, liquidity stress testing, liquidity gapping report, liquidity funding concentration, and Maximum Cumulative Outflow (MCO) limit to manage liquidity risk. Market stress testing results are also applied to the Liquidity Gap report to measure impact on future cash flows. The Bank also uses Liquidity Risk Assessment Matrix to assess the overall liquidity risk profile of the Bank. In managing intraday liquidity, the Bank has an internal buffer fund called "Secondary Reserve" for Deposit Liabilities, Deposit Substitutes, and Repurchase Agreements. The buffer fund serves to manage demand and supply of funds for new loans and funding of potential amount of liability outflows. This will allow the Bank to readily support its new business strategies and direction and management of liquidity risk.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Bank follows a prudent policy in 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. Floating rate loans are repriced periodically by reference to the transfer pool rate which reflects the Bank's internal cost of funds. As a result of these factors, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced. The Bank, 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. The Bank uses Earnings-at-Risk (EaR), Economic Value of Equity (EVE), and Interest Rate Repricing Gap reports to measure the possible impact to net interest income and net worth of the Bank under a simulated parallel movement of interest rate. Likewise, a system of risk limits and key risk indicators is also employed by the Bank to manage interest rate risk in the banking book.

Credit Risk Management

Credit Risk Management Process

Credit risk is the primary financial risk in the banking system and exists in all revenue generating activities. 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 risk arises any time when Bank's funds are extended, committed, invested or exposed through actual or implied contractual agreements. Capital depletion through loan losses has been the ultimate cause of most institutions' failures. The Bank's credit risk arises from its lending and trading of securities and foreign exchange activities.

The Bank, in recognition of the importance of identifying and rating credit risk as the initial step towards its effective management, has put in place a comprehensive set of policies and established underwriting processes, as approved by the Board of Directors. Regular analysis of the ability of potential and existing borrowers to meet interest and capital repayment obligations is made, including amendment of lending limits when appropriate. The Bank is thus able to continually manage credit-related risks in its risk asset portfolio through objective assessments/evaluations of credit proposals prior to presentation to the appropriate approval authority, ensuring the highest standards of credit due diligence and independence. The Bank's approval matrix begins at carefully reviewed and selected individual limit delegations, working its way up to the Executive Committee (EXCOM) and the Board of Directors as appropriate.

The Bank also employs and implements an Internal Credit Risk Rating System (ICRRS) that is consistent with global rating standards, compliant with Basel II requirements and appropriate to the Bank's nature, complexity and scale of activities. Resulting ratings/scores together with experienced credit judgment serve as basis in proactively setting-up of loan loss provisions.

Credit Exposure Limits

The Bank 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 exposures, industry/geographical concentrations and real estate loan ceilings. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentrations are approved by the Board of Directors. The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

Other Credit Enhancements

Exposure to credit risk is also managed in part by obtaining collateral, suretyship or guarantees. The amount and type of security required depends on an assessment of the credit risk of the counterparty. In order to minimize credit loss, additional security is sought from the borrower when impairment indicators are observed for the relevant individual loans and advances. The Bank implements guidelines on the acceptability and valuation parameters of specific classes of collateral for credit risk mitigation. The main types of collateral obtained are as follows: (i) for securities lending and reverse repurchase transactions: cash or securities; (ii) for commercial lending: mortgages over real estate properties, machineries, inventory and trade receivables; and (iii) for retail lending: mortgages over residential properties and vehicles. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank also has in place an independent review of the loan portfolio quality and credit process that allows it to continuously identify and assess the risks on credit exposures and take corrective actions. This function is carried out by the Credit Review Unit under the Bank's Enterprise Risk Management/ICAAP Group.

The Bank also measures credit risk exposure in terms of regulatory capital requirement using the standardized approach. Under this method, credit exposures are risk-weighted to reflect third-party credit assessment of the individual exposure from acceptable external credit rating agencies and allow the use of eligible collaterals to mitigate credit risk. All documentation used in the collateralized transactions and for guarantees are binding on all parties and legally enforceable in the relevant jurisdiction.

The management of the credit portfolio is subject to internal and regulatory limits which serve to control the magnitude of credit risk exposures and preserve the quality of the portfolio. ERMG also monitors large exposures and credit risk concentrations in accordance with BSP Circular 414.

Operational Risk Management

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. It includes legal risk and people risk, but excludes strategic and reputational risk. Operational risk is inherent in all activities, products and services and cuts across multiple activities and business lines within the Bank and across its subsidiaries and affiliates. The primary tool in controlling operational risk is an effective system of internal controls approved by the Board and participated by each and every employee of the Bank.

In April 2017, Enterprise Risk Management/ICAAP Group (ERMG) updated the Bank's Operational Risk Management Framework to comply with the requirements of BSP Circular 900 re: Guidelines on Operational Risk Management. The framework, which provides for a strengthened foundation and guidance on how PBCOM should effectively manage its operational risks, is periodically reviewed by the Board of Directors to ensure that operational risk management policies, processes and systems are implemented effectively at all decision levels.

The Bank has implemented a robust operational risk identification, assessment, monitoring, control and reporting system in each operating unit of the Bank. The principal operational risk management tools include the Risk Control Self Assessment (RCSA), Key Risk Indicators (KRI), Incident Reports, Corrective Action Plan and the Internal Operational Loss Database. Moreover, a system for reporting of operational crimes and losses, and policies on whistle-blowing and handling of administrative cases are in place. Other than the results of the risk monitoring activities through the above-cited risk management tools, periodic reports to the ROC on operational risk exposures include among others the Profile of Complaints, the Legal Case Profile and the Fraud Risk Report.

Aside from securing adequate insurance coverage over properties owned and acquired, putting up of reserve for self-insurance and setting up allowances for probable losses, operational risk is mitigated through preventive and detective controls which are embedded in operating policies and procedures, approval limits and authorities to govern day-to-day operations.

To instill risk awareness and an operational risk control environment, the Bank's ERMG and Compliance Group (CG) conduct regular in-house seminars and trainings, like the orientation for newly-hired employees with presentations focusing on risk management and regulatory compliance. Both groups continuously develop and implement risk management and compliance policies, while holding interactive meetings with operating units to address risk issues and implement process enhancements. The Bank has a Computer-Based Training project aimed at enabling training content more readily available and accessible; providing training and tests statistics and analytics, and a database for employees' educational achievements.

The Bank's Technology Risk Management Framework continues to provide strengthened foundation and guidance on how the Bank should effectively manage emerging technology risks. It incorporates the requirements under existing BSP regulations and which takes into account that strategic, operational, compliance and reputational risks are periodically reviewed and updated to ensure that all risks in the Bank's technology-enabled products, services, delivery channels and processes are effectively managed and that any gaps are being regularly monitored and addressed.

A comprehensive risk assessment and profiling methodologies for both IT functions and application systems are in place. Risk identification and assessments over project management were enhanced from project initiation to implementation. Control validation process was incorporated in technology risk assessments to ensure effectiveness of established risk mitigation strategy. Corrective action plans are periodically monitored and reported to ensure risk issues are timely addressed and managed proactively. The Bank's risk management team continues to play an active role in providing risk insights and assessments during launch of new products, technology and services, development of risk management policies and imbibing a culture of a risk aware organization through the conduct of trainings and seminars to Bank employees.

The Bank has in place a Business Continuity Management Framework that provides guidance for continuous operations in the event of any disruptions, and proactive mechanisms designed to prevent interruptions to critical business functions and improved Bank's resiliency. It follows a robust business continuity planning process that involves the conduct of a business impact analysis/risk assessment, periodic review and updating of business continuity plans and conduct of BCP tests and tests evaluation. A Crisis Management and Emergency Preparedness Plan and Pandemic Plan as well were established. These documents detail the step by step procedures to be taken to respond to the threat or impact of a crisis, and how the Bank will respond to emergencies to protect life, property and environment, addressed in timely manner.

Fraud Risk Management

Fraud Risk is an integral part of the enterprise-wide operational risk management of the Bank. The integration of Fraud Risk Unit to the Enterprise Risk Management/ICAAP Group on a single enterprise-

wide platform has improved overall management capabilities in addressing fraud risk.

Generally, the steps taken by the bank toward an effective fraud risk reduction program are:

a. Centralization of fraud risk loss events to identify the scope of the problem on an enterprise wide basis.
b. Support the development and implementation of new technologies to enhance fraud management effectiveness, and
c. Joining industry forums and forming partnerships to maintain a "leading edge" approach to fraud solutions.

To bring in a culture of eternal vigilance, strong internal control and compliance, the Bank's Enterprise Fraud Risk Unit conducts regular in-house seminars and trainings, with presentations focusing on Fraud Risk Awareness, Signature Verification and Counterfeit Detection, Credit Fraud and Risk Management, Identity Theft/Fraud and Check Fraud and KYC Training Sessions.

To further illuminate the "2017 BSP Pagtugon Award", the Enterprise Fraud Risk Unit has ably supported the Bank's initiative in promoting cyber-crime/fraud awareness among clients and non-clients of the bank.

Information Security Management

The Information Security Office (ISO) of PBCOM is appended under the Enterprise Risk Management/ICAAP Group. The ISO built its information security management system based on the standards of ISO/IEC 27002 and 27001 and framework of COBIT 5 for Information Security. The information security policies and standards are regularly aligned with the related regulatory and statutory minimum requirements to ensure continuing compliance.

The Information Security framework of the Bank, namely: Operating Principles (Charter), Enterprise IS Policy, Programs and Minimum Baseline Security Standards (MBSS) are periodically reviewed and updated to conform with the minimum provisions prescribed by the regulatory authorities, government statutes and generally accepted standards. With the advent of cyber security attacks in the country, there is a compelling need to continuously enhance the safeguarding of the Bank's information assets. Information Security plays a key role in ensuring protection of data, hence, preserving its confidentiality, integrity and availability, particularly during system migration, new products and services; and other initiatives involving third-party services.

The enhanced Information Security Awareness Program sustains the employee security awareness and maturity by way of regular updating of critical information to all employees through PBCOM On-Boarding for New Employees (P-ONE), Computer-Based Training (CBT) for Continuing Education Program and sending out monthly email publication of InfoSec Bytes that provides necessary information security related matters needing urgent attention of all employees such as but not limited to, dissemination of security updates, cyber security issues, ATM Skimming/Jackpotting/Shimming or similar attacks, social engineering like Phishing, Vishing and SMShing, and other security related activities.

Data Privacy Management

PBCOM cares about the protection of personal identifiable and/or sensitive information provided by customers and/or clients, thus, shall at all times abide to the minimum regulatory and statutory requirements. PBCOM built its privacy risk management system based on the provisions of Republic Act 10173 – Data Privacy Act of 2012, its Implementing Rules and Regulations (IRR), National Privacy Commission (NPC) issuances and other related laws.

Privacy risk is defined as a potential loss of control over personal identifiable and/or sensitive personal information. With the emerging threats on data privacy, the Bank had instituted control measures to efficiently manage the risk to an acceptable level.

PBCOM, through the designated Data Protection Officer (DPO), manages the risk related to data privacy by adhering to the five (5) pillars of compliance as mandated by the NPC, at the minimum.

The Bank's compliance to the data privacy is reported to the Board of Directors (BOD), through the Risk Oversight Committee (ROC), on a quarterly basis or as deemed necessary.

Trust Risk Management

The Trust and Wealth Management Group (TWMG) is exposed to fiduciary risks in managing funds and assets entrusted under its care and custody. Failure of the Group to fulfill its fiduciary responsibilities to the trustor/principal may result to a loss, damage liability, or any undesirable event that can have adverse impact on the Bank. The major risks associated with the fiduciary activities of TWMG are market, credit, liquidity, operational, legal, compliance, strategic and reputation risks. Having account management, portfolio and trading, trust credit, and operations functions within TWMG, the Bank has also designated personnel performing independent risk management function on fiduciary activities who directly report to the Enterprise Risk Management/ICAAP Group (ERMG). The fiduciary risk exposure exists in both discretionary and non-discretionary trust arrangements.

Risks arising in the performance of trust duties and obligations are addressed through the Trust Committee, Risk Oversight Committee (ROC) and ERMG. The Trust Committee performs oversight function on wealth, trust and other fiduciary services including the implementation of the risk management framework ensuring that internal controls are in place relative to the fiduciary activities of the Group. The ROC has the overall responsibility for the development of the risk strategy and implementing principles, risk framework, policies and limits of the Bank, including its Trust business. ERMG spearheads the effective implementation of the risk management process through the following risk tools and controls:

a. Periodic stress testing of Trust and Wealth portfolio
b. Risk Management Dashboard
c. Risk Limit Monitoring
d. Risk and Control Self-Assessments (RCSA)
e. Operational losses and key risk indicators report (OLKRIR)
f. Trust risk management policies

Item 2. Properties

PBCOM's Head Office is located at PBCOM Tower, 6795 Ayala Avenue corner V.A. Rufino Street, Makati City. The Bank currently owns 50% of PBCOM Tower which was constructed under a Joint Development Agreement with Filinvest Asia. The Bank has a total of 85 branches as of December 31, 2017. Most of these are located in the metropolitan areas of Luzon, Visayas and Mindanao.

Banco Dipolog Inc.'s head office is located at 083 Rizal Avenue Corner Calibo St., Dipolog City, 7100 Zamboanga del Norte, Philippines. The BDI operates with 19 branches, one extension office and seven microfinance banking offices (MBOs) as of December 31, 2017. These branches and banking offices are owned or leased by the BDI.

PBCOM's and BDI's branches are owned and/or leased. The list of branches is attached herewith marked as Annex "A". All properties owned by the bank are unencumbered. To date, the Bank has not identified properties to acquire in the next 12 months.

Item 3. Legal Proceedings

PBCOM 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 Bank 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 Bank's financial position.

Item 4. Submission of Matters to a Vote of Security Holders

Nothing was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information
Common Shares of the Bank are traded in the Philippine Stock Exchange.

Stock prices:

	2017		2016		2015	
	High	**Low**	**High**	**Low**	**High**	**Low**
First Quarter	26.40	22.00	22.50	22.00	33.00	31.00
Second Quarter	26.50	24.20	26.00	22.00	31.05	27.50
Third Quarter	26.50	24.35	25.80	22.00	28.40	24.00
Fourth Quarter	25.50	22.35	24.70	21.20	25.45	22.45

As of March 20, 2018, closing price of the Bank's common share was P23.90.

Holders
As of 31 December 2017, there were 398 shareholders of the Bank's 480,645,163 issued and outstanding common shares**.**

The top 20 registered stockholders of the Bank as of 31 December 2017 are as follows:

	Name of Shareholder	No. of Shares	%
1	P.G. Holdings, Inc.	181,080,608	37.67%
2	PCD Nominee Corporation:	145,848,713	30.34%
	Filipino – 145,836,074		
	Non-Filipino – 12,639		
3	Eric O. Recto	52,405,776	10.90%
4	Nubla, Ralph, Jr., C.	51,779,374	10.77%
5	Langford Universal Finance Ltd.	15,263,964	3.18%
6	VFC Land Resources, Inc.	11,848,288	2.47%

7	ISM Communications Corporation	4,806,987	1.00%
8	TTC Development Corporation	4,181,665	0.87%
9	Roxas-Chua, Ray Anthony Go	3,070,724	0.64%
10	Cham, Edison Siy	1,790,853	0.37%
11	KLG International, Inc.	1,790,853	0.37%
12	Gregorio T. Yu	1,432,692	0.30%
13	Chungunco, Edwin Ng (Singaporean)	631,730	0.13%
14	TFC Holdings, Inc.	562,588	0.12%
15	Chung, Patricia Regine K.	261,294	0.05%
16	Chung, Philippe Ryan K.	261,294	0.05%
17	Ching, Winnifred	187,798	0.04%
18	Ching, Jeffrey	175,505	0.04%
19	Chung, Dexter Noel T.	174,196	0.04%
20	Chung, Sidney T.	174,196	0.04%
	Chung, Zachary T.	174,196	0.04%

Dividends History:

Year	Stock Dividend	Cash Dividend
2017	-	-
2016	-	-
2015	-	-

The Bank strictly complies with the BSP regulatory requirements under Subsection X136.2 of the Manual of Regulations for Banks which states that before any declaration of dividends, banks shall comply with the following:

a. Clearing account with the Bangko Sentral is not overdrawn;
b. Liquidity floor requirement for government funds;
c. Minimum capitalization requirement and risk-based capital ratio;
d. Prescribed EFCDU/FCDU cover;
e. Statutory and liquidity reserves requirement;
f. No past due loans or accommodations with the Bangko Sentral or with any institution;
g. No net losses from operations in any one (1) of the two (2) fiscal years immediately preceding the date of dividend declaration;
h. Has not committed any of the major violations enumerated in Subsection X136.2.h.

Recent Sale of Unregistered Securities
There were no sales of unregistered securities within the fiscal year covered by this report.

The Bank has no registered debt securities. There are no existing or planned stock options. There are no registered securities subject to redemption or call. There are no existing or planned stock warrant offerings.

Item 6. Management's Discussion and Analysis or Plan of Operation

(1) Management's Discussion & Analysis

Financial Condition & Results of Operations: 2017 (Consolidated)
The Bank registered a net income of ₱718.7 Million for 2017. The bottom line grew by 79.73% or ₱318.8

Million from ₱399.9 Million realized last year which is mainly attributed to growth in loan volume.

Total interest income for 2017 improved by 8.98% to ₱4.0 Billion from ₱3.6 Billion. The Bank grew its loans and receivables by ₱7.3 Billion which resulted to higher income on loans and receivable by ₱313.9 Million. Income from trading and investment securities increased by 2.17% brought about by better market conditions and portfolio mix while interest on deposit with other banks declined by 57.89% or P21.8 Million. Higher interbank loans receivables volume by ₱224.8 Million account for 103.98% growth in interest income from interbank loans.

Net Interest Income improved by 11.77% as a result of better performance from the regular income streams of the Bank despite a corresponding increase in interest and finance charges by 2.02%.

Improvements in rental income by ₱89.0 Million, miscellaneous income by ₱67.6 Million, recognized fair value gain by ₱67.6 Million, net foreign exchange gain by ₱58.3 Million and profits from assets sold by ₱19.3 Million contributed to 8.41% increase in total operating income.

Total operating expenses declined by 1.92% from last year's level of ₱3.4 Billion mainly brought about by the decline in provision for credit and impairment losses by ₱139.5 Million. Likewise, management and professional fees dropped by ₱42.5 Million, depreciation and amortization by ₱18.7 Million and compensation and fringe benefits by ₱18.2 Million. These were offset partially by higher taxes and licenses by ₱51.0 Million, higher miscellaneous expenses by ₱46.2 Million and higher occupancy and other equipment-related costs by ₱39.9 Million.

The total resource base of the PBCOM Group stood at ₱99.2 Billion while total liabilities and equity amounted to ₱86.3 Billion and ₱12.9 Billion, respectively, as of December 31, 2017. Total liquid assets slightly went up by ₱ 5.1 Million due to increase in trading and investment securities by 35.29% notwithstanding the Group's increase in lending activities which resulted to a ₱7.3 Billion increase in loans and receivable. Despite increase in loans, Group's non-performing loans (NPL) decreased by ₱63.4 Million. Consequently, the Group's gross and net NPL ratios declined by 1.05% and 0.17%, to 5.09% and 0.94%, respectively in 2017 as a result of improved collection efforts.

PBCOM's liquidity position continued to remain stable as the Bank comfortably met all its financial obligations and loan commitments and likewise fully complied with the regulatory reserve requirements on continuing basis at an optimum funding mix during the course of the year.

Total property and equipment declined by ₱175.5 Million mainly due to depreciation and amortization and write-off of leasehold improvements. Investment properties marginally improved by 6.82% mainly due to the fair value adjustments on condominium units, and other office units for lease and foreclosed properties. Moreover, other assets increased by ₱188.6 Million mostly brought about by the releases in allowances for favorable court decisions on tax refund cases.

The Bank's deposit base registered a 12.02% or ₱7.6 Billion increase to ₱70.7 Billion as of year-end 2017 from ₱63.1 Billion during the same period last year brought about by the aggressive marketing strategy of Bank to improve funding mix focusing on low cost. This resulted in favorable reduction in interest expenses on deposits which went down by ₱26.8 Million from the previous year level of ₱861.4 Million in 2016 to ₱834.6 Million of the current reporting year. Likewise, total borrowed funds went up by ₱2.5 Billion mainly coming from deposit substitutes placements and repo resulting to increased interest expense of ₱47.8 Million in the current year. Year-end level of manager's check, deferred tax liabilities and other liabilities went up by ₱127.0 Million, ₱123.3 Million, and ₱214.6 Million respectively.

PBCOM's capital is at ₱12.9 Billion, up by ₱2.1 Billion as of December 31, 2017 from ₱10.8 Billion as of year-end 2016, primarily attributed to 4th and final tranche payment of PG Holdings Corporation amounting to ₱1.4 Billion. The Bank's Risk Based Capital Adequacy Ratio of 15.85% under BASEL 3

reporting standards covering credit, market and operational risk as of report date is well above the 10% minimum requirement.

Financial Condition & Results of Operations: 2016 (Consolidated)

The Bank registered a net income of ₱399.9 Million for 2016. The bottom line grew by 96.33% or ₱196.2 Million from ₱203.7 Million realized last year which can be attributed to favorable market conditions that resulted to higher revenues from trading and lending activities.

Total interest income for 2016 improved by 10.16% to ₱3.63 Billion from ₱3.3 Billion. The Bank provided credits worth over ₱9.6 Billion to its clients during the year which resulted to increased income on loans and receivable of ₱304.7 Million. Income from trading and Investment Securities increased by 7.48% brought about by better market conditions and portfolio mix while interest on deposit with other bank declined by 39.22% or ₱24.3 Million.

Net Interest Income improved by 11.61% as a result of better performance from the regular income streams of the Bank despite a corresponding increase in interest and finance charges by 6.70%.

As the overall market outlook improved this year, trading activities also picked up which translated to healthy trading gains that grew by ₱239.3 Million from the ₱7.7 Million year-end level in the previous year. Foreign Exchange gain likewise improved by 12.49% or ₱1.3 Million while rental income went up by ₱70.1 Million from last year's level of ₱404.1 Million. This was, however, offset by the lower recognized fair value gain on investment properties that declined by ₱655.3 Million and profit from assets sold and exchange and income from trust operation by ₱4.2 Million and ₱1.4Million, respectively. Thus, total operating income dropped by 4.32% or ₱183.1 Million.

Meanwhile, total operating expenses declined by 3.60% or ₱127.8 Million from last year's level of ₱3.54 Billion to ₱3.42 Billion of the current year mainly brought about by the decline in compensation and fringe benefits by ₱163.0 Million. Likewise, taxes and licenses and occupancy and equipment-related cost dropped by ₱29.3 Million and ₱33.3 Million, respectively. Meanwhile, various infrastructure and hardware upgrades contributed to increased depreciation and amortization by ₱55.0 Million.

The total resource base of the PBCOM Group stood at ₱86.49 Billion while total liabilities and equity amounted to ₱75.72 Billion and ₱10.78 Billion, respectively, as of December 31, 2016. Total liquid assets slightly went up by ₱794.41 Million in spite of Trading and Investment securities dropped by 9.61% as the Bank opted to engage more in lending activities which resulted to a ₱9.6 Billion increase in loans and receivable. This consequently increased the Bank's Non-performing loans (NPL) by ₱250.7 Million. However, the Group's NPL ratio declined from 1.44% in year 2015 to 1.10% in 2016 as the Bank increased the additional provisions for credit/impairment losses as a buffer against normal lending risks increases.

PBCOM's liquidity position continued to remain stable as the Bank comfortably met all its financial obligations and loan commitments and likewise fully complied with the regulatory reserve requirements on continuing basis at an optimum funding mix during the course of the year.

Total property and equipment declined by ₱141.76 Million mainly due to depreciation and amortization. Investment properties marginally improved by 5.73% due to the fair value adjustments on condominium units for lease on leased out and foreclosed properties. Moreover, Other Assets decreased by ₱111.1 Million brought about by the reversal of floats, advance rentals and prepaid expenses.

The Bank's deposit base registered an 8.31% or ₱4.8 Billion increase to ₱63.1 Billion as of year-end 2016 from ₱58.3 Billion during the same period last year brought about by the aggressive marketing strategy of Bank to improve deposit mix focus on low cost. This resulted in favorable reduction in interest expenses on deposits which went down by ₱8.52 Million from the previous year level of ₱869.93 Million in 2015 to ₱861.40 Million of the current reporting year. Likewise, total borrowed funds went up by ₱3.6 Billion

mainly coming from deposit substitutes placements and repo resulting increased interest expense of ₱73.7 Million in current year. Year-end level of manager's check and deferred tax liabilities went up by ₱191.47 Million and ₱71.98 Million respectively.

PBCOM's capital based at ₱10.8 Billion up by ₱1.9 Billion as of December 31, 2016 from ₱8.9 Billion as of year-end 2015, primarily attributed by 3rd tranche payment of PG Holdings Corporation amounting to ₱1.4 Billion. The Bank's Risk Based Capital Adequacy Ratio of 14.64% under BASEL 3 reporting standards covering credit, market and operational risk as of report date is well above the 10% minimum requirement

Financial Condition & Results of Operations: 2015 (Consolidated)

The Bank's total assets as of December 31, 2015 stood at ₱76.26 Billion, up by ₱4.32 Billion from the 2014 year-end level of ₱71.935 Billion. The expansion was brought about by the ₱908 Million increase in trading and investment securities. A strategic build-up in the inventory of fixed-income securities and dollar bonds was followed in line with the Bank's thrust to actively engage in trading activities. Total loan portfolio of the Bank expanded by ₱2.987 Billion to ₱36.50 Billion from ₱33.51 Billion as of year-end 2015. Though Non-performing loans (NPL), went up by ₱492 Million to ₱2.44 Billion as of year-end 2015, NPL ratio improved to 1.44% from 1.40% in December 2014, as the Bank increase the additional provisions for credit/impairment losses as a buffer against normal lending risks increases.

PBCOM's liquidity position continued to remain stable as the Bank comfortably met all its financial obligations and loan commitments and likewise fully complied with the regulatory reserve requirements on continuing basis at an optimum funding mix during the course of the year.

Total property and equipment declined by ₱100.2 Million mainly due to depreciation and amortization and was partially offset by increase in appraisal value by P29.9 Million. Year-on-year level of investment properties improved by 21% or P988.6 Million mainly due to the fair value adjustment on condominium units for lease on leased out 18th and 19th floor of PBCOM Tower in September 2014 and foreclosed properties. Other assets went improved by ₱165.51 Million mainly due to higher prepaid expense that include software maintenance and business licenses for the year, and creditable tax from BIR.

The Bank's deposit base registered a slight 1.38% or P815.7 Million decline to P58.30 Billion as of year-end 2015 from P59.12 Billion during the same period last year. There was a favorable shift from high cost deposits to cheaper funds as time deposits declined by ₱4.94 Billion while CASA deposits grew by P4.12 Million. This resulted in favorable reduction in interest expenses which went down by ₱12.17 Million from P882.19 Million in 2014 to P869.93 Million in 2015. On the other hand, total borrowed funds a ₱3.056 Billion increase in year-on-year average volume mainly coming from higher deposit substitutes placements, reverse repurchase agreement with BSP to augment the Bank's liquidity stock and address temporary funding gaps corollary to the decline in deposits. Year-end level of Manager's check decreased by ₱102.2 Million from the same period of last year's level of ₱211.130 Million to ₱108.9 Million as the Bank is paying off its obligation. Deferred tax liabilities and other liabilities, likewise grew by ₱292.2 Million and ₱159.75 Million, respectively.

The Bank's capital based at ₱8.92 Billion up by ₱1.705 Billion as of December 31, 2015 from ₱7.218 Billion as of year-end 2014, primarily attributed by 2nd tranche payment of PG Holdings Corporation. Remeasurement losses on defined benefit liability likewise registered improvement that trimmed its losses by ₱98.5 Million to ₱172.66Million in 2015. PBCOM maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder's value. The Bank's Risk Based Capital Adequacy Ratio of 14.97% under the new BASEL 3 reporting standards covering credit, market and operational risk as of report date is well above the 10% minimum requirement

Amidst the unfavorable market conditions brought about by the global economic slowdown, PBCOM maintained its profitable performance posting a net income of ₱203.6 Million in year-end 2015 from the

same period of 2014 with level of ₱110.5 Million.

PBCOM's net interest income improved by 19.78% or ₱384.02 Million largely attributed by the decrease in interest expense on deposits and bills payable coupled with full year effect of income from subsidiaries (vs one quarter in prior year) and increase in year-on-year average volume of earning/interest bearing assets coming from current loans and trade receivables and deposit with bank/BSP by ₱517.8 Million and ₱34.46 Million, respectively. However, said increase was pulled down by the decline on interest income from trading and investment securities by ₱169.21 Million and Inter-bank/SPURA by ₱10.28 Million.

Non-Interest Income favorably rose by 67.05% to ₱4.23 Billion year on year from P3.084 Billion last year primarily attributed to the increase in fair value gain from investment properties amount of ₱561.32 Million. Additional contributors to the increase in non-interest income are the rental income from PBCOM Tower on the escalation of rental rates and services charges, fees and commission by ₱90.65 Million and ₱100.09 Million, respectively. However, due to lack of trading opportunities, trading and security gain posted a decrease of P53.99 Million from last year's level of P61.699 Million to current year's level of P7.71 Million.

Operating expenses went up by ₱870.2 Million from 2014 year-end level of ₱2.674 Billion to ₱3.544 Billion of the current year. The increase was largely attributed by the increase on controllable expenses such as management and professional fees by P81.800 Million, information and technology by ₱32.10 Million and insurance expense by ₱25.17 Million. Moreover, non-controllable expenses like taxes and licenses, depreciation and provision for impairment losses likewise contributed to the increase of operating expenses by ₱55.65 Million, ₱92.57 Million and ₱638.6 Million respectively. The increase was hold back by the decline in representation expense by ₱18.94 Million and advertising expense by ₱31.24 Million. Manpower cost was posted a marginal decrease of 1.60% or ₱21.87 Million due to current year accrual for retirement expense in accordance with PAS 19 that negated savings generated from the decrease in salaries/wages expense occasioned by the reduced headcount from the continuing streamlining program of the Bank whereby retiring senior officers, and select middle management positions were not replaced.

(2) Discussion of various key indicators:

A. Key Performance Indicators

Ratio	December 2017 (Conso)	December 2016 (Conso)	Remarks
Profit Margin *(Net income divided by Gross income)*	16.36%	9.87%	Net Profit Margin increased by 6.49% due to higher net income which grew by 79.73% compared to last year.
Return on Average Asset *(Net income divided by Average assets)*	0.77%	0.49%	Increased income for the year and average assets, has resulted to higher ROA versus Dec 2016
Return on Average Equity *Net income divided by Average equity)*	6.06%	4.06%	Higher net income and increased average equity resulted to 2.00% improvement in ROE for the year.
Capital Adequacy Ratio *Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk)*	15.85%	14.67%	Qualifying capital grew by ₱ 1.8 B due mainly to final tranche of capital infusion while total risk-weighted assets increased by ₱6.79 B. It remains however above the 10% minimum CAR required by the BSP.
Basic Earnings per share *Net income divided by average no. of common shares)*	2.00	1.34	Higher net income versus 2016, which was primarily driven by increased interest income has resulted to improved earnings per share

B. Financial Soundness

Ratio	December 2017 (Conso)	December 2016 (Conso)	Remarks
Liquidity Ratio (Liquid Assets to Total Deposits) *Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities. Total deposit refers to the total of peso and foreign currency deposits.*	51.27%	49.40%	The Bank's liquidity ratio increased by 1.87% due to 16.25% increase in liquid assets particularly in financial assets which is higher the than increase in deposit liabilities of 12.02%.
Debt Ratio (Total Liability to Total Asset) *Debt refers to the total liabilities while assets is the total assets*	86.97%	87.54%	A minimal decrease in the Bank's debt ratio has been observed due to growth in liabilities by 13.196%, particularly in deposit liabilities by ₱7.6 B, and this was outweighed by the increase in total asset by 14.71% for the current period.
Asset to Equity Ratio (Total Asset to Total Equity	767.34%	802.27%	The Bank's lower leverage was due to 19.93% increase in year-on-year total equity as a result of final tranche payment of subscribed common stock by investor last September 2017 while total assets managed to grow only by 14.71%.
Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense)	198.26%	161.10%	Interest rate coverage increased by 37.16% due to increase of earnings before interest by 25.55%.
Net Interest Margin Net interest income over Average Earning assets	4.26%	4.42%	The slight decrease of 0.16% was due to the 15.87% increase in average earning asset which outweighed the 11.77% increase in net interest income.

Statement of Condition: December 2017 vs. December 2016 (consolidated)

(in thousands)	Increase (Decrease)	Percentage	Remarks
Cash and Other Cash Items	(68,404)	-6.56%	Lower cash on hand
Due from BSP	1,984,636	14.86%	Higher reserves requirement from higher deposits volume
Due from Other Banks	(1,830,695)	-61.09%	Lower investment in DFOB's
Interbank Loans Receivable and SPURA	224,794	72.48%	Higher investment in interbank loans as of period
Financial Assets at FVTPL	2,439,988	812.02%	Higher investment in FVTPL as of period
Equity Securities at FVOCI	38,397	73.50%	Higher investment in FVOCI as of period
Financial Assets at Amortized Cost	2,281,707	17.37%	Higher investment in HTC as of period
Loans and Receivables	7,263,530	15.76%	Increase in loan volume as of the reporting period
Investments in Subsidiaries and in an Associate	692	5.59%	Higher income from affiliate (PBCOM Finance)
Property and Equipment	(175,456)	-10.64%	Depreciation recognized for the period, write-off of leasehold improvements
Investment Properties	410,723	6.82%	Higher because of FV gain recognized for the year, increase in cost from improvements booked, and ROPA acquisitions
Deferred Tax Assets	(3,789)	-6.34%	Subsidiary's lower recognized tax benefit
Intangible Assets	(36,987)	-4.73%	Lower due to amortization of software during the period partially offset by acquisitions
Other Assets	188,610	37.03%	Higher creditable withholding taxes, chattel

			mortgage and lower allowance primarily from releases due to favorable court decisions
Demand	3,935,963	25.45%	Improved deposit mix due to conscious effort to lower cost led to higher % of low cost deposits
Savings	1,385,759	19.96%	
Time	2,268,114	5.57%	
Bills Payable	2,468,015	24.44%	Higher due to placements in REPO
Outstanding Acceptances	29,728	86.53%	Due to higher bills of exchange accepted by the Bank
Manager's Checks	127,020	42.29%	Increase in un-negotiated MC's as of reporting date
Income Tax Payable	13,218	5,507.50%	Increase due to MCIT and non application of DTA to income tax due
Deferred Tax Liabilities	123,332	11.16%	Mostly from fair value gain recognized during the period
Other Liabilities	214,649	34.81%	Higher mostly from accrual of 3rd party incentives

Statement of Income and Expenses: Jan-Dec 2017 vs Jan-Dec 2016 (consolidated)

(in thousands)	Increase (Decrease)	Percentage	Remarks
Interest Income - Loans and Receivables	313,853	10.81%	Higher interest income mainly due to increase in volume
Interest Income - Deposits with Other Banks	(21,757)	-57.89%	Lower income due to lower investment in SDA with BSP
Interest Income - Interbank Loans Receivable and SPURA	19,832	103.98%	Higher income due to increase in volume
Interest Expense - Bills Payable, Borrowings and Others	47,782	26.94%	Increase in interest expense mainly due to higher volume from REPO product and BSP OLF
Rent Income	89,046	18.78%	Rental from new tenants in 2017 and higher rent extension charges
Fair Value Gain from Investment Properties	67,588	23.60%	Mainly from higher FV gain in PBCOM Tower
Trading and Securities Gain - Net	(260,282)	-105.36%	Lower because of net trading losses incurred in 2017
Foreign Exchange (Gain) Loss – Net	58,313	508.22%	Higher realized and unrealized fx revaluation
Income from Trust Operations	(1,460)	-8.66%	The Bank registered lower trust fees during the comparative period
Profit from Assets Sold and Exchange	12,586	259.29%	The Bank has recognized higher net gains from the sale of ROPA properties
Miscellaneous	69,995	137.05%	Higher mainly due to higher allocation to income for utilities charged to PBCOM Tower tenants
Taxes and Licenses	50,971	12.54%	Higher GRT accrued and paid
Occupancy and Other Equipment-related Costs	39,939	21.66%	Higher mainly because of higher allocation to income for utilities charged to PBCOM Tower tenants
Depreciation and Amortization	(18,663)	-5.40%	Lower mainly from derecognition of leasehold assets from OBO closure & Wynsum lease, offset by increase in software amortization and depreciation on computers, FFE, etc
Provision for impairment losses	(139,473)	-29.18%	Improved collection efforts
Security, Clerical, Messengerial and Janitorial Services	9,026	10.62%	Higher agency fees for security
Entertainment, Amusement and Recreation	4,849	6.26%	Increase in entertainment expenses
Management and Professional Fees	(42,538)	-28.24%	Lower consultancy fees
Miscellaneous Expense	46,226	14.28%	Primarily caused by higher collection fees in 2017
Share in net income of an associate	429	163.12%	Share in the improved net income of PBCOM Finance Corp for the year

Provision for Income Tax	87,818	37.40%	Increase due to recognition of fair value of bank owned properties

Interest income on non-discounted loans is recognized based on the accrual method of accounting while unearned discounts are amortized to income over the terms of the loans. As such, there are no seasonal aspects that materially impact on the Bank's interest revenues.

(3) Other material events and/or uncertainties:

- The Bank does not anticipate any cash flow or liquidity problems in the next 12 months after year-end 2017.
- The Bank does not foresee any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period**.**
- There are no material commitments for capital expenditures.
- There are no uncertainties regarding the sustainability of economic growth of the country which may pose challenges in the Bank's drive to expand its loan portfolio. Any negative impact of a slower economic growth, however, may be overcome or mitigated at the very least by aggressive spread management initiatives.
- There are no significant elements of the Bank's income in 2017 that did not arise from continuing operations.
- There are no seasonal aspects that have a material effect on the financial condition or results of operations.

Item 7. Financial Statements

Attached hereto are the audited financial statements for the year ended December 31, 2017.

The accounting firm of Sycip, Gorres, Velayo and Co. ("SGV"), with address at SGV Building, 6760 Ayala Avenue, Makati City, has been the Bank's independent public accountants for the past years. The same accounting firm will likely be recommended for re-election at the scheduled annual meeting this year. Ms. Josephine A. Abarca was assigned partner starting in 2014 in compliance with SRC 68(3)(b)(ix).

SGV is expected to be represented in the coming Annual Stockholders' Meeting with an opportunity to make statements, if they so desire, and will be available to respond to appropriate questions.

There is no disagreement with the Bank's accountants on matters of accounting and financial disclosure.
The aggregate external audit fees billed for each of the last three (3) fiscal years for the audit of the registrant's annual financial statements or services that are normally provided by the external auditors are as follows:

Fiscal Year	Audit Fees	All other fees
2017	₱4,004,419	₱ -
2016	₱3,284,007	-
2015	₱3,127,626	-

The above audit fees are inclusive of the following: (a) Other assurance related services by the External Auditor that are reasonably related to the performance of the audit or review of the Bank's financial statements and (b) All Other Fees. Fees paid to professional partnerships like SGV are not subject to withholding tax.

The Audit Committee is directly responsible in selecting and appointing the independent public accountants. Annually, the Committee recommends that the Board request shareholder ratification of the appointment of the independent public accountants. The Committee is also responsible for setting the compensation of the independent public accountants and periodically reviews the fees charged for all permitted audit-related expenses and other services. It is also their responsibility to evaluate and, when appropriate, to remove the independent public accountants.

At present, the Audit Committee is composed of: Emmanuel Y. Mendoza as Chairman with Bunsit Carlos G. Chung, Levi B. Labra and Gilda E. Pico as Members.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes and disagreement with accountants on matters of accounting and financial disclosure.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

(1) Directors and Executive Officers

NAME	OFFICE	AGE	CITIZENSHIP	YEAR OF ASSUMPTION OF OFFICE
Eric O. Recto	Chairman of the Board/Director	54	Filipino	2011
Leonardo B. Dayao	Vice Chairman / Director	74	Filipino	2014
Patricia May T. Siy	President & CEO / Director	57	Filipino	2015
Carmen G. Huang	Executive Director	67	Filipino	2015
Bunsit Carlos G. Chung	Director	68	Filipino	1997
Lucio L. Co	Director	63	Filipino	2014
Susan P. Co	Director	60	Filipino	2014
Levi B. Labra	Director	60	Filipino	2014
Ralph C. Nubla, Jr.	Director	67	Filipino	1982
Gregorio T. Yu	Director	59	Filipino	2011
David L. Balangue	Independent Director	66	Filipino	2014
Jesus S. Jalandoni, Jr.	Independent Director	60	Filipino	2013
Roberto Z. Lorayes	Independent Director	75	Filipino	2014
Emmanuel Y. Mendoza	Independent Director	53	Filipino	2014
Gilda E. Pico	Independent Director	71	Filipino	2017
Jaime Valentin L. Araneta	Executive Vice President – Branch Banking Group	62	Filipino	2016
Eriberto Luis S. Elizaga	Executive Vice President – Corporate & Commercial Banking Group	54	Filipino	2015
Manuel Andres D. Goseco	Executive Vice President-Treasurer	49	Filipino	2016
John Howard D. Medina	Executive Vice President-COO	48	Filipino	2017
Arlene M. Datu	Senior Vice President – Controller	59	Filipino	2013

BOARD OF DIRECTORS

ERIC O. RECTO, *Chairman of the Board and Director*
Mr. Recto, Filipino, 54 years old, was elected Director and Vice Chairman of the Board on July 26, 2011, appointed Co-Chairman of the Board on January 18, 2012 and Chairman of the Board on May 23, 2012. He is the Chairman and CEO of ISM Communications Corporation, Chairman and President of Bedfordbury Development Corporation; Vice Chairman and President of Atok-Big Wedge Co., Inc., and President and Director of Q-Tech Alliance Holdings, Inc.; a Director of Petron Corporation and a member of the Board of Supervisors of Acentic GmbH. Prior to joining the Bank, Mr. Recto served as Undersecretary of Finance of the Republic of the Philippines from 2002 to 2005, in charge of handling both International Finance Group and the Privatization Office. Before his stint with the government, he was Chief Finance Officer of Alaska Milk Corporation and Belle Corporation. Mr. Recto has a degree in Industrial Engineering from the University of the Philippines as well as an MBA from the Johnson School, Cornell University, USA.

LEONARDO B. DAYAO, *Vice Chairman and Director*
Mr. Dayao, Filipino, 74 years old, was elected Director on September 29, 2014 and Co-Vice Chairman on October 24, 2014. Mr. Dayao currently holds the following positions in publicly listed companies: President of Cosco Capital, Inc. and Director of Puregold Price Club, Inc. He also holds various positions in the following privately-owned companies: Chairman of Cabadbaran-Magallanes Water Corporation, Catuiran Hydropower Corporation, Fertuna Holdings Corp., Grass Gold Renewable Energy (G2REC) Corporation, Kareila Management Corporation, League One Finance and Leasing Corporation, North Palawan Water Corporation, Pamana Holdings Incorporated, PSMT Philippines, Inc., PG Lawson Company, Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc., Tacloban City Water Corporation; President of Alcorn Petroleum Minerals Corporation, NE Pacific Shopping Centers Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., San Jose City I Power Corp., Union Energy Corporation; Vice-President of Alerce Holdings Corp., Bellagio Holdings, Inc., KMC Realty Corporation, Puregold Properties, Inc., Union Equities, Inc., VFC Land Resources, Inc.; and Director of Canaria Holdings Corporation Entenso Equities Incorporated, Karayan Hydropower Corporation, Liquigaz Philippines Corp., and Puregold Realty Leasing & Management, Inc. He received a Bachelor of Science Degree in Commerce from the Far Eastern University. He is a Certified Public Accountant and has completed Basic Management Program at Asian Institute of Management and earned units in MBA from University of the Philippines-Cebu.

PATRICIA MAY T. SIY, *President and Chief Executive Officer, Director*
Ms. Siy, Filipino, 57 years old, was elected Director, President and Chief Executive Officer on June 1, 2015. Immediately before joining PBCOM, she served as Chief Corporate Planning Officer of Travellers International Hotel Group from 2012 and as Chief Finance Officer of Rustan's Supercenter Inc. from 2011 to 2012. Her banking experience spanned 31 years. She was with Security Bank Corporation where she held various positions from 2000 to 2011 in Middle Market Lending and Corporate Lending leading to the Executive Vice President post for the Commercial and Retail Banking Segment. She had a stint with Standard Chartered Bank from 1994 to 2000 in the fields of Regional and Philippine Consumer Credit, Group Special Asset Management, and Corporate Banking in Cebu and Head Office. Her first Bank was Private Development Corporation of the Philippines where she stayed from 1983 to 1994 as Project Analyst, Cebu Lending Head, Visayas Lending Head, and then Branch Lending Head. Ms. Siy graduated from De La Salle University with a Bachelor of Science degree in Industrial Management Engineering minor in Chemical Engineering.

CARMEN G. HUANG, *Executive Director*
Ms. Huang, Filipino, 67 years old, was elected Executive Director on April 29, 2015. She obtained both her Bachelor of Arts in Mathematics and Bachelor of Science in Accountancy at St. Scholastica's College Manila, and completed the academic requirements for Master in Business Administration at the Ateneo Professional School. In the past, she held various critical management positions in both government and private financial institutions. Ms. Huang is a Certified Public Accountant.

BUNSIT CARLOS G. CHUNG, *Director*
Mr. Chung, Filipino, 68 years old, was elected Director on June 17, 1997. He is President of Supima Holdings, Inc., and Director of La Suerte Cigar & Cigarette Factory, Century Container Corporation, Bicutan Container Corporation, Tosen Foods Corporation, PBCOM Finance Corporation, State Land, Inc., State Investment, Inc. and State Properties, Inc. He is an Advisory member of the Board of Trustees of Xavier School Inc., and a member of the Board of Trustees of Immaculate Conception Academy (Greenhills) Scholarship Foundation, Tiong Se Academy, Mother Ignacia National Social Apostolate Center, Seng Guan Temple and Kim Siu Ching Family Association. Mr. Chung has a degree in AB (Economics) & Business Administration from De La Salle University as well as an MBA from the University of Southern California.

LUCIO L. CO, *Director*
Mr. Co, Filipino, 63 years old, was elected Director on September 29, 2014. Mr. Co currently holds the following positions in other publicly-listed companies: Director and Chairman of Puregold Price Club, Inc., Chairman of Cosco Capital, Inc. and Chairman and President of Da Vinci Capital Holdings, Inc. He is also the Chairman of the following privately-owned companies: Alcorn Petroleum & Minerals Corporation, Bellagio Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Entenso Equities Incorporated, Invescap Incorporated, Liquigaz Philippines Corporation, NE Pacific Shopping Centers Corporation, P.G. Holdings, Inc., Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Pure Petroleum Corp. San Jose City I Power Corp., Union Energy Corporation, and Union Equities, Inc., He is also a Director of the following privately-owned companies: Alphaland Makati Tower, Inc., Cabadbaran-Magallanes Water Corporation, Catuiran Hydropower Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Karayan Hydropower Corporation, Kareila Management Corp., LCCK & Sons Realty Corporation, League One Finance and Leasing Corporation, Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., North Palawan Water Corporation, Pamana Holdings Incorporated, PG Lawson Company, Inc., PPCI Subic, Inc., Patagonia Holdings Corp., Premier Wine & Spirits, Inc., S&R Pizza (Harbor Point), Inc., and S&R Pizza, Inc., Tacloban City Water Corporation. He is a member of the Board of Trustees of Adamson University and Luis Co Chi Kiat Foundation, Inc. Mr. Co has been an entrepreneur for the past 40 years.

SUSAN P. CO, *Director*
Mrs. Co, Filipino, 60 years old, was elected Director on September 29, 2014. She currently holds the positions of Vice-Chairman of Puregold Price Club, Inc. and Vice-Chairman and Treasurer of Cosco Capital, Inc., both publicly listed companies. Mrs. Co is the Chairman of Alphaland Makati Tower, Inc. and Director of the following privately-owned companies: Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc. , Kareila Management Corp., KMC Realty Corp., Luis Co Chi Kiat Foundation, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., NE Pacific Shopping Center Corporation, P.G. Holdings, Inc., Patagonia Holdings Corp., PG Lawson Company, Inc., PPCI Subic Inc., Premier Wines and Spirits, Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Pure Petroleum Corp., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc., San Jose City I Power Corp., Union Energy Corporation and Union Equities, Inc. Mrs. Co received a Bachelor of Science Degree in Commerce from the University of Santo Tomas.

LEVI B. LABRA, *Director*
Mr. Labra, Filipino, 60 years old, was elected Director on October 24, 2014. He is also a Director of Cosco Capital, Inc., a publicly listed company. Mr. Labra obtained his Bachelor of Science degree in Business Administration (Cum Laude) at the University of San Carlos, Cebu City.

RALPH C. NUBLA, JR., *Director*
Mr. Nubla, Filipino, 67 years old, was elected Director on March 24, 1982. He is a Director of PBCOM Finance Corporation, Director and President of R. Nubla Securities, Echague Realty Corporation and RN

Realty Corporation. He was an Executive Director of the Bank in 2004, Senior Vice President in 1982, Vice Chairman in 2000 and Chairman of the Board in 2010. He has more than 30 years of experience in banking. He was also President of CNC Investment Inc. He graduated from Ateneo de Manila University with a Bachelor of Science degree in Commerce.

GREGORIO T. YU, *Director*
Mr. Yu, Filipino, 59 years old, was elected Director on July 26, 2011. At present, he is Chairman of the Board of Auto Nation Group Inc., CATS Automobile Corporation and American Motorcyles, Inc. and Vice Chairman of the Board and Chairman of the Executive Committee of Sterling Bank of Asia. Mr. Yu is also a Director of Philippine Airlines and PAL Holdings Inc., CATS Asian Cars, Inc., PhilEquity Management Inc., Vantage Equities Inc., Iremit Inc., Unistar Credit and Finance Corporation, ISM Corporation, Prople BPO Inc., Glyph Studios, Inc., WSI Corporation, Nexus Technologies, Jupiter Systems Corporation and E-business Services Inc. Mr. Yu is also a Board Member of Ballet Philippines and The Manila Symphony Orchestra. In the past, he was President & CEO of Belle Corporation, Vice Chairman of APC Group and Philippine Global Communication. He was formerly a director of CATS Motors Inc., International Exchange Bank, Philequity Fund Inc., Philippine National Reinsurance Corporation, Filcredit Finance, Yehey Corporation, iRipple, RS Lim & Co., and a Director and Vice President at Chase Manhattan Asia Limited. Mr. Yu was formerly a member of the Board of Trustees of the Government Service Insurance System, Xavier School Inc., and Chairman, Ways and Means of Xavier School Educational and Trust Fund. He graduated summa cum laude with a degree of Bachelor of Arts in Economics from De La Salle University and holds a Master of Business Administration degree from the Wharton School of the University of Pennsylvania.

DAVID L. BALANGUE, *Independent Director*
Mr. Balangue, Filipino, 66 years old, was elected Independent Director on April 7, 2014. He is presently Director of Phinma Energy Corporation, Phinma Power Generation Corporation, Subic One Power Generation Corporation, Roxas Holdings, Inc., Holcim Philippines, Inc. Maybank ATR Kim Eng Capital Partners, Inc., ATR Asset Management, Inc., ATRAM Trust Corporation, Unistar Credit & Finance Corporation, Omnipay, Inc. and Broadband Everywhere Corporation. He is also Chairman and President of Makati Center Estate Association and Makati Parking Authority, Inc. In the past, he served as Chairman and Managing Partner of Sycip Gorres Velayo & Co. and Chairman of the Philippine Financial Reporting Standards Council, National Movement for Free Elections (NAMFREL), and the Philippine Center for Population and Development, Inc. He obtained his Bachelor of Science in Commerce Major in Accounting (Magna Cum Laude) at the Manuel L. Quezon University and his Master in Management (With Distinction) at the Kellogg School of Management, Northwestern University in Evanston, Illinois, USA. Mr. Balangue is a Certified Public Accountant, having placed 2nd in the 1972 CPA Board Examination.

JESUS S. JALANDONI, JR., *Independent Director*
Mr. Jalandoni, Filipino, 60 years old, was elected Independent Director on January 28, 2013. He is currently Director of Liberty Flour Mills, Personal Computer Specialists, Inc., as well as Chairman and President of Alegria Development Corporation. He is also the Executive Vice President and Treasurer of Nissan Car Lease Phils. Inc., President of LFM Properties Corporation, Valueline Realty & Development Corporation, Buendia Offices Condominium Corporation and The Second Mid-land Offices Condominium Corporation and now as the new Treasurer of JM & Co. Inc. He is the President of Kanlaon Development Corporation, Jayjay Realty Corporation and Kanlaon Farms, Inc. Mr. Jalandoni holds a Bachelor of Science degree in Business Management major in Economics at Simon Fraser University, Burnaby, British Columbia.

ROBERTO Z. LORAYES, *Independent Director*
Mr. Lorayes, Filipino, 75 years old, was elected Independent Director on October 24, 2014. He is currently Chairman of the Board of PhilEquity Management, Inc., Director of Vantage Equities, Inc., E-biz Corporation, Strategic Equities Corporation and House with No Steps Foundation. Mr. Lorayes obtained his Bachelor of Science degree in both Commerce and Liberal Arts at De La Salle University and Masters in

Business Management at the Ateneo De Manila University.

EMMANUEL Y. MENDOZA, *Independent Director*
Mr. Mendoza, Filipino, 53 years old, was elected Independent Director on December 19, 2014. He is currently the Managing Partner of Mendoza Querido & Co., (a member firm of Moore Stephens International Limited), President of MQ Agri Unlimited Inc., Treasurer of Two Delta Holdings, Inc. and Pacific Harbour Investment Holding. He is Director of Crossgate Holdings, Pinoyfoods and Beverages Corporation, Leyte Export and Trading Corporation, F. Mendoza Realty Development Corporation. He obtained his Bachelor in Business Administration in Accountancy at the University of the Philippines and a Master in Management at the Asian Institute of Management. Mr. Mendoza is a Certified Public Accountant.

GILDA E. PICO, *Independent Director*
Ms. Pico, Filipino, 71 years old, was elected Independent Director on February 22, 2017. She is currently Chairman of the Board of Producers Savings Bank where she was formerly a Director/Consultant. She also sits as Director of the following acquired banks of Producers Savings Bank while awaiting Bangko Sentral ng Pilipinas ("BSP") approval for the merger: 1) Rural Bank of Bustos; 2) Rural Bank of Sto. Domingo; 3) Rural Bank of Pamplona; 4) Rural Bank of President Quirino; 5) Rural Bank of Pasacao; and, 6) Rural Bank of Magarao. Ms. Pico is also connected with Marinor Development Corporation as Director/Treasurer, Gilart Holdings Corporation as President and PayMaya Philippines as Independent Director. In the past, Ms. Pico was President and CEO of Land Bank of the Philippines from November 2006 to July 2016. She was Land Bank's Acting President from July 2005 to November 2006 and Trustee of Land Bank Countryside Development Fund from 2005 to 2015. She also served as Director/Chairman in various government and private institutions engaged in leasing, realty, insurance, guarantees, microfinancing, rural and development banking from 1985 to 2016. Ms. Pico obtained her Bachelor of Science degree in Commerce in 1966 from College of the Holy Spirit where she graduated Magna Cum Laude and earned units in Masters in Business Administration from the University of the East. Ms. Pico is a Certified Public Accountant.

ANGELO PATRICK F. ADVINCULA, *Corporate Secretary*
Mr. Advincula, Filipino, 47 years old, was elected Corporate Secretary on October 24, 2014. He is currently a Partner of Zambrano Gruba Caganda and Advincula Law Offices, Director of Da Vinci Capital Holdings, Inc., and ZG Global Advisors Corporation. Mr. Advincula holds a Bachelor of Arts degree in Philosophy and a Bachelor of Laws both from the University of the Philippines. He is a Member of the Philippine Bar.

MICHAEL STEPHEN H. LAO, *Asst. Corporate Secretary and Corporate Information Officer*
Mr. Lao, Filipino, 34 years old, was elected Assistant Corporate Secretary and Corporate Information Officer on November 30, 2014. He is currently a Senior Associate of Zambrano Gruba Caganda and Advincula Law Offices. Mr. Lao received his Juris Doctor degree from the Ateneo de Manila School of Law in 2012 and was admitted to the Philippine Bar in 2013.

EXECUTIVE OFFICERS

JAIME VALENTIN L. ARANETA, *Executive Vice President – Retail Business Group*
Mr. Araneta, 62 years old, joined PBCOM as Head of Branch Banking Group in December 2016. He has extensive experience in Branch Operations, Loans Operations, Treasury Operations, Central Clearing and ATM Operations, Business Process and Methods, Compliance and Risk Management, Branch Banking and Sales and Auto and Personal Loans from various financial institutions. Prior to joining PBCOM, he was Executive Vice President & Chief Operating Officer of China Bank Savings for five years. He graduated from the Ateneo de Manila University with a degree of AB Philosophy and units in MBA and Law.

ERIBERTO LUIS S. ELIZAGA, *Executive Vice President – Corporate & Commercial Banking Group*
Mr. Elizaga, 54 years old, joined PBCOM in September 2015. He has 30 solid years of credit experience. Prior to joining the Bank, he was a former senior officer, with the last rank as Senior Vice President, in the Corporate Banking Group of Security Bank Corporation (March 2000 to August 2015). He has likewise handled Corporate, Commercial and Consumer lending from various financial institutions such as the former PCI Bank (1986 – 1993), Union Bank of the Philippines (1993 – 1996) and Standard Chartered Bank (1996 -2000). He graduated from the Ateneo de Manila University with a degree in AB Economics and has completed the academic requirements of Ateneo Graduate School of Business.

MANUEL ANDRES D. GOSECO, *Executive Vice President – Treasurer*
Mr. Goseco, 50 years old, joined PBCOM in January 2016 as the Bank's Treasurer. He brings to the Bank over 20 years' experience in various financial institutions specializing in treasury and investments. He was formerly SVP and Treasurer of East West Banking Corporation. He was also a former Director of the Money Market Association of the Philippines and the National Association of Securities Brokers, Inc. Mr. Goseco graduated with an AB Economics degree from the Ateneo de Manila University and MA Economics from Fordham University where he was a recipient of a Presidential Scholarship. He earned the Chartered Financial Analyst (CFA) designation in 2004 from the CFA Institute.

JOHN HOWARD D. MEDINA, *Chief Operations Officer and Executive Vice President*
Mr. Medina, 48 years old, joined PBCOM in April 2017. He has a proven executive management track record and over 25 years of experience driving innovation, change and transformation for financial services in different countries. Prior to joining PBCOM, John was the Head of Global Operations, Technology and Credit for the Philippine National Bank, where he worked for almost 15 years. He was also the Integration Director, who oversaw the merger of PNB with Allied Banking Corporation in 2013. He was a pioneer in the process and technology management practice in the nineties when he helped transform the Asian operations of one of the largest multinational banks. He subsequently established a private consulting firm in the United States, helping design new business initiatives for financial institutions and dot com startups. Mr. Medina also worked at Union Bank of the Philippines for 5 years where he conceptualized and implemented digital banking products and services. Mr. Medina has a Bachelor of Science in Industrial Engineering from the University of the Philippines and an MBA from the Shidler College of Business at the University of Hawai'i at Manoa. He was an East-West Center Degree Fellow and the recipient of a full scholarship while at the University of Hawai'i. He also received study grants to attend the Handelshøjskolen I Århus (The Aarhus School of Business), Pacific Asian Management Institute and the European Summer School for Advanced Management for additional graduate studies.

ARLENE M. DATU, *Senior Vice President – Finance Group*
Ms. Datu, 59 years old, was hired on January 21, 2013. She was formerly SVP and Franchise Controller of Citibank N.A. – Philippines and Guam. Prior to the said position, she was the Chief Finance Officer of Citibank-Guam. She also held various managerial positions with Citibank – Philippines where she started her career in banking, focusing on the areas of Operations and Finance. Ms. Datu obtained her Bachelor of Science in Commerce degree Major in Accounting at the Polytechnic University of the Philippines.

The directors of the bank are elected at the annual stockholder's meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Directorship in Other Reporting Companies

- Mr. Eric O. Recto is also a Director of ISM Communications Corporation, Atok-Big Wedge Co. Inc., and Petron Corporation.
- Mr. Leonardo B. Dayao is also a Director of Puregold Price Club, Inc. and Cosco Capital, Inc.
- Mr. Lucio L. Co is also a Director of Puregold Price Club, Inc., Cosco Capital, Inc., and Da Vinci Capital Holdings, Inc.
- Ms. Susan P. Co is also a Director of Puregold Price Club, Inc. and Cosco Capital, Inc.

- Mr. Levi B. Labra is also a Director of Cosco Capital, Inc.
- Mr. Gregorio T. Yu is also a Director of IRemit, Inc., ISM Communications Corporation, PAL Holdings and Vantage Equities, Inc.
- Mr. David Balangue is also a Director of Roxas Holdings, Inc. and Holcim Philippines, Inc.
- Mr. Jesus S. Jalandoni, Jr. also is a Director of Liberty Flour Mills.
- Mr. Roberto Z. Lorayes is also a Director of Vantage Equities, Inc.
- Mr. Angelo Patrick F. Advincula is also a Director of Da Vinci Holdings, Inc.

Shares of Atok-Big Wedge Co., Inc. (AB), ISM Communications Corporation (ISM), Petron Corporation (PCOR), Puregold Price Club, Inc. (PGOLD), Cosco Capital, Inc. (COSCO), Da Vinci Capital Holdings, Inc. (DAVIN), IRemit, Inc. (I), and Vantage Equities, Inc. (V), PAL Holdings (PAL), Liberty Flour Mills (LFM),), are all listed in the Philippine Stock Exchange, Inc.

(2) Significant Employees

There is none to disclose. The Bank currently does not employ any person who is not an executive officer but makes a significant contribution to the business.

(3) Family Relationships

Mr. Lucio L. Co and Ms. Susan P. Co are husband and wife. Other than the foregoing, the persons nominated or chosen by the Bank to become directors or executive officers are not related to each other up to the fourth civil degree either by consanguinity or affinity.

(4) Involvement in Legal Proceedings

To the best of the knowledge of management, the Bank is not aware of:

- any bankruptcy petition filed by or against any business of which they are incumbent directors or senior officers, was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- any conviction by final judgment in a criminal proceeding, domestic or foreign, pending against any of the incumbent directors or executive officers;
- any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of the incumbent directors or executive officers in any type of business, securities, commodities or banking activities; and
- any finding by a domestic or foreign court of competent jurisdiction (in civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or said regulatory organization, that any of the incumbent directors or executive officers has violated a securities or commodities law, and the judgment has not been reversed, suspended or vacated.

which may have a material effect in the operations and deter, bar or impede the fulfillment of his/ her duties as a director or executive officer of the Bank.

Item 10. Executive Compensation

Compensation of Directors and Executive Officers

Since the Bank obtained an exemption from the SEC to disclose the required detailed compensation information, disclosure of aggregate compensation paid or accrued during the last three fiscal years 2015 to 2017 of the Bank's Chief Executive Officer and four other most highly compensated executive officers are as follows:

	2017	2016	2015
CEO and four most highly compensated Executive officers	Patricia May T. Siy President & CEO Eriberto Luis S. Elizaga Executive Vice President Manuel Andres D. Goseco Executive Vice President Jenny F. Lansang Senior Vice President Alan E. Atienza Senior Vice President	Patricia May T. Siy President & CEO Eriberto Luis S. Elizaga Executive Vice President Manuel Andres D. Goseco Executive Vice President Salvador R. Serrano Senior Vice President Alan E. Atienza Senior Vice President	Nina D. Aguas President & CEO (Jan – Feb) Henry Y. Uy (Mar – May) Patricia May T. Siy (Jun – Dec) President & CEO Victor Q. Lim Executive Vice President Arlene M. Datu Senior Vice President Maria Teresita R. Dean (Jan – Nov) Senior Vice President Helen G. Oleta (Jan – Oct) Senior Vice President
Salary	₱50,220,000.00	₱48,850,000.00	₱26,157,477.50
Bonus	18,715,111.00	16,283,333.33	8,290,653.43
Other Annual Compensation		-	-
TOTAL	₱68,935,000.00	₱65,133,333.33	₱34,348,130.93

All officers and directors as Group Unnamed			
Salary	₱665,578,642.00	₱612,155,661.68	₱577,143,844.18
Bonus	204,966,214.00	193,137,665.14	177,878,425.66
Other Annual Compensation	-	-	-
TOTAL	₱870,544,856.00	₱805,293,326.82	₱755,022,269.84

The following is the estimated annual compensation for year 2018:

	Salary	Bonus	Other Annual Compensation	Total
Total of CEO and Four most highly compensated Executive Officers	₱50,340,000.00	₱16,780,000.00	none	₱67,120,000.00
All officers as a group unnamed	₱639,817,480.00	₱191,826,451.67	none	₱831,643,931.67

The director's per diem and other fees amounted to P15.5M, P9.0M and P13.7M, as of December 31, 2017, 2016 and 2015, respectively.

The six (6) independent and one (1) other Director are entitled to a Director's fee for attending Board meetings. The remaining eight (8) Directors have waived their right to receive Director's fees. As stipulated in the By-laws, Directors are also entitled to share in the net profits to be distributed in such manner as the Board may provide but not exceeding four (4) percent.

There are no other terms and conditions with regard to employment contract between PBCOM and named Executive Officers or any other more compensatory plans or arrangement except those disclosed above.

There are no Outstanding Warrants or Options held by the Directors, Officers as of December 31, 2017.

The Bank has no record of adjusting or amending the exercise price of stock warrants previously awarded to any of the officers and directors.

Item 11. Security Ownership of Certain Beneficial Owners and Management

A. Security Ownership of Certain Record and Beneficial Owners of more than 5 percent of the Bank's capital stock:

Title of Class	Name and Address of Record Owner and relationship with Issuer	Name of Beneficial Ownership and relationship with Record Owner	Citizenship	No. of Shares	% Held
Common	P.G. Holdings, Inc. 900 Romualdez St., Paco, Manila Stockholder	Lucio L. Co – Chairman & President Susan P. Co - Director	Filipino	181,080,608	37.67%
Common	PCD Nominee Corporation Stockholder	Various stockholders	Filipino Non-Filipino	145,836,074 12,639	30.34% 0.00%
Common	Eric O. Recto 5/F PBCOM Tower 6795 Ayala Ave. cor. V.A. Rufino St., Makati City Stockholder	Eric O. Recto – same as record owner	Filipino	52,405,776	10.90%
Common	Ralph C. Nubla, Jr. (5/F PBCOM Tower 6795 Ayala Ave. cor. V.A. Rufino St., Makati City	Ralph C. Nubla, Jr. – same as record owner Ralph C. Nubla, Jr. – same as record owner	Filipino	51,779,374	10.77%

B. Security Ownership of Management

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent
Common	Eric O. Recto	Direct	52,729,424	Filipino	10.97%
Common	Leonardo B. Dayao	Direct	7,001	Filipino	0.00%
Common	Patricia May T. Siy	Direct	100	Filipino	0.00%
Common	Carmen G. Huang	Direct	500	Filipino	0.00%
Common	Bunsit Carlos G. Chung	Direct	550,716	Filipino	0.11%
		Indirect	449,294		0.09%
Common	Lucio L. Co	Direct	1	Filipino	0.00%
		Indirect	91,985,705		19.14%
Common	Susan P. Co	Direct	1	Filipino	0.00%
		Indirect	91,893,720		19.12%
Common	Levi B. Labra	Direct	100	Filipino	0.00%
Common	Ralph C. Nubla, Jr.	Direct	51,779,374	Filipino	10.77%
Common	Gregorio T. Yu	Direct	1,432,692	Filipino	0.30%
Common	David L. Balangue	Direct	50	Filipino	0.00%
Common	Jesus S. Jalandoni, Jr.	Direct	10	Filipino	0.00%
Common	Roberto Z. Lorayes	Direct	500	Filipino	0.00%
Common	Emmanuel Y. Mendoza	Direct	100	Filipino	0.00%
Common	Gilda E. Pico	Direct	100	Filipino	0.00%

C. Voting Trust Holders of 5% or more

There are no voting trust agreements or any other agreements/arrangements that may result in a change in control of the Company.

Item 12. Certain Relationships and Related 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 Bank's transactions with related parties include key management personnel, affiliates (i.e. entities which are controlled, significantly influenced by or for which significant voting power is held by the Bank or key management personnel or their close family members and retirement plan for the benefit of the Bank's employee). These transactions are made in the ordinary course of business and on substantially same terms with that of other parties.

The Bank's related party transactions below are also presented and discussed in details in the Audited Financial Statements.

Related Party	Transaction with the Bank
Post-retirement Plan	Investment made in retirement plan is approved by the Bank's Retirement Board. Trust fee income from such service and total deposits maintained with the Bank in 2017 amounted ₱2.17 Million and ₱ 88.39 Million, respectively while interest expenses paid by the Bank to the deposits was ₱0.7 Million.
Provident Fund	Outstanding deposit and interest paid by the Bank as of year-end was ₱57.29 Million and ₱0.46 Million, respectively while trust fees earned from such service amounted to ₱2.38 Million.
Key Management Personnel	Senior Management Team constitutes key management personnel for purposes of PAS 24. Short term benefits and post-employment benefits given to SMT in 2017 amounted to ₱153.15 Million and ₱7.55 Million, respectively. Year-end balance of deposits and interest expenses paid by the Bank amounted to ₱12.63 Million and ₱0.02 Million respectively.
Affiliate	Year-end balance of deposits and interest expenses incurred by the Bank amounted ₱14.72 Million and ₱0.12 Million, respectively. Rental income earned for the year is ₱0.13 Million.
Subsidiaries	Year-end balance of deposits and interest expenses incurred by the Bank amounted ₱91.79 Million and ₱0.30 Million, respectively. Rental income earned for the year is ₱0.17 Million.
Significant Investors	Year-end balance of deposits and interest expenses incurred by the Bank amounted ₱1.82 Billion and ₱7.83 Million, respectively. Rental income and expenses during the year amounted to ₱3.57 Million and ₱21.92 Million.

As required by BSP, the Bank discloses loans transactions with certain directors, officers, shareholders and their related interests ("DOSRI") in the ordinary course of business, under commercial terms and on an arm's length basis observing at all times the legal limits prescribed under current BSP regulations on DOSRI loans. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total unimpaired capital or 15% of the total loan portfolio. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations. As of December 31, 2017 the Bank is in compliance with such regulations.

PART IV - CORPORATE GOVERNANCE

Item 13. Corporate Governance

PBCOM Board of Directors and Management, employees and shareholders, believe that Corporate Governance is a necessary component of what constitutes sound strategic business management. Thus, the Bank has undertaken every effort necessary to create awareness for this within the organization. All Directors and Senior Management are required to attend its annual continuing education program on Corporate Governance and Risk Awareness. The Board, Senior Management and all employees conduct themselves with utmost honesty and integrity in the discharge of their duties, functions and responsibilities, thus nurturing the continuing success of the Bank and securing its competitiveness in the best interest of the Bank, its shareholders and other stakeholders. Bank Officers promote the good governance practices within the Bank by ensuring that policies on governance are consistently adopted across the organization, with measurable standards, initiatives and specific responsibilities and accountabilities for each personnel.

Consistent with the global practices of good Corporate Governance, the Bank's overriding commitment to a culture of good governance is seen through the following underlying principles:

1. It is the Bank's objective to enhance shareholders' value by making the most efficient use of resources. Its human capital strategy is one of its vital focus areas, as it is a principal indicator for the company's success.
2. The Board of Directors constitutes Board Committee namely Governance, Audit, Risk Oversight and Related Party Transactions Committees which are all chaired by Independent Directors and composed of majority of Independent Directors, all of whom have a good understanding of the business.
3. The Governance Committee is responsible for ensuring the Board's effectiveness and due observance of Corporate Governance principles and guidelines. They assist the Board of Directors in fulfilling its corporate governance responsibilities.
4. The Governance Committee, through its Nominations Sub-Committee, ensures the quality of its leadership, consistent with its "fit and proper" rule when selecting its Directors and Senior Management Team, while the Performance Evaluation Sub-Committee, recommends and oversees the implementation of a Performance Management Process for Senior Management and the Members of the Board, review performance vis-a-vis agreed upon objectives, evaluate progress made with respect to Senior Management Directors Development plans, monitor changes in professional affiliations, personal status even health, which could have qualifications, resignation and succession implications.
5. Transparency in its Annual Reports is ensured and reflects true and fair accounting information prepared in accordance with applicable standards; disclose and discuss all material risks; and disclose and explain the rationale for all material estimates. Disclosures are all completed in a timely manner.
6. To ensure that all act in the best interest of the Bank, full disclosure by its Directors, Officers and Employees on any actual or expected conflict of interest is required
7. The Bank's Corporate Governance Manual, Code of Ethics and Code of Conduct clearly states Management's philosophy and compliance standards.

Annually, the Bank through the Governance Committee reviews the Corporate Governance Manual and recommends changes/amendments/revisions for the approval of the Board of Directors when and where necessary.

PART V - EXHIBITS AND SCHEDULES

Item14. Exhibits and Reports on SEC Form 17-C

1. Exhibits – None

2. Reports on SEC Form 17 – C

Date	Particulars
December 20, 2017	The Bank disclosed the new Composition of Board Committees
October 25, 2017	The Bank disclosed the hiring of Mr. Delbert Sioson Ang It as Head of Sales & Distribution, Senior Vice President under the Branch Banking Group.
October 4, 2017	The Bank disclosed the Amendment to the Articles of Incorporation
August 31, 2017	The Bank disclosed the Appointment of a Board of Director as Member of Risk Oversight Committee- Dir. Carmen C. Huang and Hiring of a Senior Officer- Ms. Ma. Salome Viloria-Panzo
August 14, 2017	Press Release- PBCOM registered a Robust Net Income growth in 1H 2017
June 6, 2017	Result of Annual Meeting of Stockholders and Organizational Board Meeting
May 5, 2017	Reply to PSE's Letter on Delayed Disclosure
April 20, 2017	The Bank disclosed the List of Stockholders as of 12 April, 2017
April 17, 2017	Press Release- PBCOM Income Almost Double on Strong Income From Core Business
March 29, 2017	The Bank disclosed the schedule of the 2017 Annual Stockholders' Meeting as follows: **Date and Time** — **6 June 2017 (Tuesday) at 2:00 P.M.** **Venue** — Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City **Record Date** — 12 April 2017
March 29, 2017	The Bank disclosed the hiring of Mr. John Howard D. Medina as Chief Operations Officer, Executive Vice President. (Effective 17 April 2017)
February 22, 2017	The Bank disclosed the hiring of the following Directors: 1) Ms. Gilda E. Pico, as an Independent Member of the Board of Directors effective 22 February 2017. 2) Dir. Levi B. Labra, as a regular member of the Board of Directors effective 22 February 2017 The Bank also disclosed the new composition of the following Board Committees: <u>Audit Committee:</u> a) Emmanuel Y. Mendoza (Chairman/Independent Director) b) Bunsit Carlos G. Chung c) Levi B. Labra d) Gilda E. Pico (Independent Director) <u>Governance Committee:</u> a) Roberto Z. Lorayes (Chairman/Independent Director) b) Eric O. Recto c) Leonardo B. Dayao d) David L. Balangue (Independent Director) e) Gilda E. Pico (Independent Director)

	Risk Oversight Committee: a) David L. Balangue (Chairman/Independent Director) b) Jesus S. Jalandoni, Jr. (Independent Director) c) Bunsit Carlos G. Chung d) Levi B. Labra e) Patricia May T. Siy Related Party Transactions Committee a) David L. Balangue (Chairman/Independent Director) b) Jesus S. Jalandoni, Jr. (Independent Director) c) Bunsit Carlos G. Chung d) Levi B. Labra
February 2, 2017	Reply to PSE's clarification on the news posted in Business World Online.
January 18, 2017	The Bank disclosed the resignation of Mr. Salvador R. Serrano as SVP, Branch Banking Group, effective 1 January 2017.
January 5, 2017	Director's Attendance for Year 2016

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on 12 APR 2018.

By:

PATRICIA MAY T. SIY
President and Chief Executive Officer
(Principal Executive Officer)

ARLENE M. DATU
SVP and Controller
(Controller & Principal Accounting Officer)

MANUEL ANDRES D. GOSECO
EVP and Treasurer

ANGELO PATRICK F. ADVINCULA
Corporate Secretary

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY) S.S.

SUBSCRIBED AND SWORN to before me this APR 12 2018, affiants exhibiting to me their SSS and Passport Number, as follows:

Name	
Patricia May T. Siy	SSS # 03-7309995-5
Manuel Andres D. Goseco	SSS # 33-3090941-2
Arlene M. Datu	SSS # 03-5663345-1
Angelo Patrick F. Advincula	SSS # 33-5003997-7

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Until December 31, 2018
IBP No. 656155-Lifetime Member
MCLE Compliance No. V-0006934
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

Doc No. 55
Page No. 12
Book No. XIX
Series of 2018.

PBCOM
PHILIPPINE BANK OF COMMUNICATIONS
菲律濱交通銀行

ANNEX A - 1

PHILIPPINE BANK OF COMMUNICATIONS
BRANCHES' SITES - OWNED AND LEASED
AS OF DECEMBER 31, 2017

No.	BRANCH	ADDRESS	CONDITION OF PREMISES	OWNED / LEASED	LEASE TERMS		
					MONTHLY RENTAL (OFFICE + PARKING + OTHER CHARGES) AS OF DECEMBER 2017	EXPIRY DATE	RENEWAL OPTIONS
A. BANK-OWNED PROPERTIES UTILIZED AS BRANCHES							
1	BINONDO BANKING CENTER	7th Floor, PBCOM Bldg 214-216 Juan Luna St. Binondo Manila	good	owned	-		
		4th Floor, PBCOM Bldg 214-216 Juan Luna St. Binondo Manila	good	owned	-		
2	CAGAYAN DE ORO	PBCOM Bldg. Hayes St. cor. Tiano Bros. St. Cagayan De Oro City	good	owned	-		
3	CEBU	Magallanes near corner Manalili Streets, Cebu City	good	owned	-		
4	DAVAO	41 Monteverde St., Davao City	good	owned	-		
5	GENERAL SANTOS	Santiago Blvd., General Santos City	good	owned	-		
6	ILOILO	Ledesma corner Valeria Sts, Iloilo City	good	owned	-		
7	KORONADAL	Gen. Santos Drive, Koronadal, South Cotabato	good	owned	-		
8	MAKATI BANKING CENTER	PBCOM Tower, 6795 Ayala Avenue corner V.A. Rufino, Makati City	good	owned	-		
9	MANDAUE	National Highway corner Jayme Street, Mandaue City	good	owned	-		
10	MANGO	General Maxillom (Mango) Ave., Cebu City	good	owned	-		
11	MARIKINA	34 J.P. Rizal St., Calumpang, Marikina	good	owned	-		
12	MERALCO AVE (FORMER JULIA VARGAS)	C-1 Horizo Condominium, Meralco Avenue, Pasig City	good	owned	-		
13	QUIRINO-DAVAO	111 E. Quirino Avenue, Davao City	good	owned	-		
14	TAGUM	Pioneer Avenue, Tagum, Davao del Norte	good	owned	-		
15	U.N. AVENUE (FORMER MABINI)	U101 & 102, Don Alfonso Cond. 1108 MH del Pilar cor. UN Ave. & Guerreo Sts., Ermita, Manila	good	owned	-		
B. LEASED PROPERTIES UTILIZED AS BRANCHES							
1	ANGELES	Ground Floor, MLT Centre Building, Lot 28, Block 2, McArthur Highway, Brgy. Ninoy Aquino, Angeles City	good	leased	83,349.00	15-Aug-19	
2	ANNAPOLIS	Unit 101 Victoria Plaza, 41 Annapolis St., Greenhills, San Juan	good	leased	200,441.48	15-Apr-19	
3	AYALA-ALABANG	ALPAP II Building, Investment Drive cor. Trade St., Madrigal Busines Park, Ayala Alabang, Muntinlupa City	good	leased	251,865.72	31-Jan-18	
4	BACOLOD	Units A-E, Ground Floor, Sorrento	good	leased	125,091.85	28-Feb-19	
5	BAGUIO	Ground Floor Level, Unit Nos. 105, 106 & 106-B, Baguio Holiday Villas, No. 10 Legarda Road, Baguio City	good	leased	153,537.49	30-Nov-18	For Renewal in 2018
6	BATANGAS	Diego Silang St., Batangas City	good	leased	113,248.17	31-Jan-19	
7	BMA	Web-Jet Building, Quezon Ave., Q.C.	good	leased	87,735.00	30-Nov-18	For Renewal in 2018
8	CABANATUAN	Ground Floor, SAM Building along Maharlika Highway, Cabanatuan City	good	leased	60,000.00	31-Jan-19	
9	CAINTA	LGF 04 & LGF 05, CK Square Bldg., Ortigas Ave. Extension cor. Sunset Drive, Cainta, Rizal	good	leased	93,985.43	19-Sep-19	
10	CALAMBA	Ground Floor Walter Mart, National Highway corner Real Street, Calamba, Laguna	good	leased	85,493.94	31-Oct-18	For Renewal in 2018
11	CALOOCAN	298-C2 6th Avenue Ext. Caloocan City	good	leased	60,949.91	14-Sep-22	
12	CAUAYAN	Mateo-Patricia Bldg., Rizal Avenue Extension, Cauayan, Isabela	good	leased	78,750.00	31-May-19	
13	CEBU BUSINESS PARK	Unit 1, Ground Floor, Creativo 2 Bldg. Mindanao Avenue, Cebu Business Park, Cebu City Taguig	good	leased	225,248.00	20-Jan-19	
14	CONGRESSIONAL	No. 8 Congressional Ave., Brgy. Bahay Toro, Quezon City	good	leased	95,679.53	30-Apr-18	
15	CUBAO - SPARK	2nd Floor SPARK Place, P. Tuazon cor. 10th Avenue, Quezon City	good	leased	154,583.07	31-Aug-19	
16	DAGUPAN	Ground Floor, Balingit Building, Arellano Street, Dagupan City	good	leased	89,580.00	15-May-19	
17	DASMARINAS	EVY Building Salawag-Paliparan Road Dasmariñas, Cavite	good	leased	102,608.35	31-Oct-19	
18	DAVAO BAJADA	RAQ Bldg., J.P. Laurel Avenue, Bajada Street, Davao City	good	leased	145,810.56	30-Sep-18	For Renewal in 2018
19	DUMAGUETE	Unit No. 6 Yala Building, Calindagan, Dumaguete City	good	leased	51,128.00	28-Feb-19	
20	ECHAGUE	ERC Building, Echague cor. Isla Del Romero, Quiapo, Manila	good	leased	89,909.49	31-Mar-20	
21	ELCANO	SHC Tower, Elcano St., San Nicolas, Manila	good	leased	150,500.00	28-Feb-21	
22	F1 HOTEL, BGC	F1 Hotel Building, Lane Q corner Lane A Roads, Bonifacio Global City,	good	leased	403,374.44	15-Feb-18	
23	GREENHILLS	Quadstar Building, 80 Ortigas Avenue, San Juan, Metro Manila	good	leased	213,443.20	31-Mar-21	
24	ILIGAN	Juan Luna cor. Del Pilar Sts., Iligan City	good	leased	139,647.97	15-Jul-18	For Renewal in 2018
25	IMUS	Luis Gaerlan St., and Imus Boulevard, Imus, Cavite	good	leased	91,162.97	30-Jun-18	
26	J.P. RIZAL	Ground Floor, Santini Corp. Building, 519 J.P. Rizal Ave., Brgy. Olympia, Makati City	good	leased	135,849.31	30-Apr-20	
27	LA UNION	Quezon Avenue, San Fernando City, La Union	good	leased	95,668.25	31-Jan-20	
28	LEGASPI VILLAGE	Unit 1-A, Vernida I 120 Amorsolo St., Legaspi Vill., Makati City	good	leased	71,990.57	31-Jul-20	
29	LEGAZPI CITY	Ground Floor De Los Santos , Commercial Building, Landco , Business Park, Legazpi City	good	leased	126,759.00	9-Aug-19	
30	LIPA	ATDRMAM Building Ayala Highway Mataas na Kahoy, Lipa	good	leased	101,871.00	31-Jan-19	
31	LUCENA	VCCI Building Merchan cor. San Fernando, Lucena City	good	leased	84,424.50	15-Nov-18	For Renewal in 2018
32	M. DE SANTOS, DIVISORIA	553-561 M. De Santos St., Divisoria, Tondo, Manila	good	leased	229,320.00	31-Mar-20	
33	MALABON	Unit Nos. 1 &2 Ground Floor, Robinsons Town Mall, No. 5 Gov. Pascual Avenue corner Crispin Street, Tinajeros, Malabon City	good	leased	158,839.83	31-May-19	

PBCOM
PHILIPPINE BANK OF COMMUNICATIONS
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ANNEX A - 1

PHILIPPINE BANK OF COMMUNICATIONS
BRANCHES' SITES - OWNED AND LEASED
AS OF DECEMBER 31, 2017

No.	BRANCH	ADDRESS	CONDITION OF PREMISES	OWNED / LEASED	LEASE TERMS		
					MONTHLY RENTAL (OFFICE + PARKING + OTHER CHARGES) AS OF DECEMBER 2017	EXPIRY DATE	RENEWAL OPTIONS
34	MALOLOS	Malolos Shopping Arcade Paseo Del Congreso, Malolos City	good	leased	60,366.60	15-Aug-18	For Renewal in 2018
35	MASANGKAY	1004-1006 Masangkay St. Binondo, Manila	good	leased	134,400.00	30-Sep-18	For Renewal in 2018
36	MEYCAUAYAN	Mancon Building McArthur Highway, Calvario, Meycauyan City	good	leased	74,641.22	15-Apr-18	
37	NAGA	Ground Floor, Rodriguez Building, 956 Panganiban St., corner Balintawak St., Naga City	good	leased	77,175.00	28-Feb-19	
38	OLONGAPO	Grd. Flr. YBC Centre Mall, Rizal , Avenue Extension, Olongapo City	good	leased	132,354.47	30-Sep-19	
39	ONGPIN	Chinatown Center, 729 Ongpin Street, Sta. Cruz, Manila	good	leased	273,353.85	30-Sep-19	
40	PADRE RADA	951 Juan Luna Street, Tondo, Manila	good	leased	128,971.60	14-Jul-22	
41	PARANAQUE	Unit 3-4, Kingsland Building Dr. A. Santos Avenue, P'que. City	good	leased	141,241.84	31-May-22	
42	PASAY	2492 Taft Avenue, Pasay City	good	leased	117,600.00	31-Oct-20	
43	PIONEER	RFM Corporate Center Pioneer cor. Sheridan Sts., Mandaluyong City	good	leased	205,164.08	13-May-21	
44	PUREGOLD SAN PEDRO	Puregold San Pedro, Old National Highway cor. Magsaysay St., San Pedro, Laguna	good	leased	49,692.00	14-Nov-21	
45	QUEZON AVE	APC Building, 1186 Quezon Avenue, Quezon City	good	leased	210,000.00	30-Sep-21	
46	SALCEDO VILLAGE	Ground Floor, Unit Nos. 7 & 8, V Corporate Centre, LP Leviste St., Salcedo Village, Makati City	good	leased	351,397.98	30-Apr-19	
47	SAN FERNANDO,	McArthur Highway Dolores, San Fernando, Pampanga	good	leased	128,460.55	31-Mar-19	
48	SAN MIGUEL AVE.	Unit G101OMM-CITRA Condominium, San Miguel Avenue, Ortigas Center, Pasig City	good	leased	157,834.32	31-Jul-20	
49	SAN PABLO	Rizal Avenue, San Pablo City, Laguna	good	leased	48,024.96	30-Apr-21	
50	SEN. GIL PUYAT	Unit 101-C, Oppen Building, 349 Sen. Gil Puyat Avenue, Makati City	good	leased	218,007.74	14-Jul-20	
51	SHAW BLVD	146 Shaw Boulevard cor. San Roque St., Pasig City	good	leased	79,658.78	15-Nov-19	
52	SOLER	No. 943 Soler St., of R & S Tower, Inc., Binondo, Manila	good	leased	129,670.09	31-May-18	
53	SOUTH GATE MALL	Unit T06 and T07, Third Floor, Alphaland Southgate Mall, 2258 Chino Roces Avenue corner EDSA, Makati City, Metro Manila	good	leased	212,382.91	18-Dec-18	For Renewal in 2018
54	STA. MESA	G. Araneta Avenue, Sta. Mesa, Q.C.	good	leased	149,197.83	31-Jul-18	For Renewal in 2018
55	STA. ROSA	Unit No. 2, Paseo 5, Phase 2, Paseo de Sta. Rosa	good	leased	280,773.15	31-Mar-18	
56	STO. CRISTO	563 Sto. Cristo Street, Divisoria, Manila	good	leased	94,500.00	16-Sep-20	
57	T. ALONZO	T. Alonzo Street, Sta. Cruz, Manila	good	leased	241,491.60	10-Sep-18	For Renewal in 2018
58	TAGBILARAN	Ground Floor, LTS Building, Carlos, P. Garcia Avenue, Tagbilaran City	good	leased	67,200.00	30-Jul-19	
59	THE MAKATI PLACE	Ground Floor Unit C-15, Alphaland Makati Place, Ayala Ave. cor. Malugay St. Makati City.	good	leased	148,292.22	30-Nov-18	For Renewal in 2018
60	TIMOG	75 Timog Avenue, Quezon City	good	leased	128,349.59	15-Jul-19	
61	TOMAS MORATO	Ground Floor Unit, Atherton Building, Tomas Morato Avenue corner Don A. Roces Avenue, Quezon City	good	leased	100,223.38	30-Sep-19	
62	VALENZUELA	246 McArthur Highway, Karuhatan, Valenzuela	good	leased	170,000.00	18-May-21	
63	ZAMBOANGA VALDEROSA	LKG Building, Valderosa Street, Zamboanga City	good	leased	104,020.55	30-Apr-21	
64	ZAMBOANGA VETERANS	BSC Tower (formerly Zamsulu Bldg.) Ground Floor, Door 5-7, Veterans Ave., Zamboanga City	good	leased	97,020.00	30-Sep-19	
LONG TERM BRANCH LEASE							
65	CORINTHIAN GARDENS	Sanso Street, Corinthian Gardens, Q.C.	good	leased	Leasehold Rights of P12 Million	30-Sep-21	Newly Renovated. Php12MM one-time assessment over a 20 yr lease term.
66	TUTUBAN	Prime Block Building, Tutuban Center, C.M. Recto Avenue, Manila	good	leased	Leasehold Rights of P9.92 Million	22-Aug-39	Not yet Renovated. PBCom paid a reservation deposit - P18 Million plus EVAT and Construction/Renovation deposit - P20,000.00 and Renewed for another 25 yr. term from 8/23/14 to 8/22/39.
NEW BRANCH LEASE FOR 2017							
67	LAPU-LAPU	Grd. Flr. Unit 11, Alpha Arcade Bldg., M.L. Quezon National Highway, Pajo, Lapu-Lapu City	good	leased	25,522.56	31-Jul-20	
68	DIVISORIA MALL	Stalls No. 3N-01, 03 and 05 located at Third Floor (3rd) Old Divisoria Market, bounded by Tabora, Comercio, M. De Santos and Sto. Cristo, Manila	good	leased	115,006.36	2-Jul-21	
69	INOZA TOWER	Ground Floor Unit D, 40th St., Bonifacio Global City, Taguig City	good	leased	314,832.00	7-Oct-22	
70	ONE86 AT WILSON	Ground Floor Unit of ONE86 at Wilson, San Juan, Metro Manila	good	leased	71,400.00	14-Oct-22	

ANNEX A-2

BANCO DIPOLOG,INC.
BRANCHES' SITES - OWNED AND LEASED
AS OF DECEMBER 31, 2017

No.	BRANCH	ADDRESS	CONDITION OF PREMISES	OWNED / LEASED	LEASE TERMS		
					MONTHLY RENTAL (OFFICE + PARKING + OTHER CHARGES) AS OF DECEMBER 2017	EXPIRY DATE	RENEWAL OPTIONS
A. BANK-OWNED PROPERTIES UTILIZED AS BRANCHES							
1	Dipolog City/Head Office	083 Rizal Avenue, corner Calibo St., Dipolog City	good	owned			
2	Sindangan, Zamboanga del Norte	BDI Bldg., Quezon Avenue, Poblacion Sindangan, 7112 Zamboanga del Norte	good	owned			
3	Ipil, Zamboanga-Sibugay	BDI Bldg., Osmena St., Poblacion Ipil, 7001 Zamboanga Sibugay	good	owned			
4	Pagadian, Zamboanga del Sur	BDI Bldg., Pajares corner Sanson Sts., Padian City, 7016 Zamboanga del Sur	good	owned			
5	Nagcarlan Branch (Head Office)	Nagcarlan Branch (Head Office), 692 Jose Coronado Street, Nagcarlan, Laguna	good	owned			
6	Cabuyao, Laguna	J. P. Rizal Street, Cabuyao, Laguna	good	owned			
7	San Pablo Branch	80 Rizal Avenue, San Pablo City, Laguna	good	owned			
B. LEASED PROPERTIES UTILIZED AS BRANCHES							
1	Dapitan City, Zamboanga del Norte	Justice F. Saguin St., Potol, Dapitan City, Zamboanga del Norte	good	leased	15,000.00	31-Dec-18	
2	Dumaguete City, Negros Oriental	Dy-Ho Bldg., Maria Cristina St., Dumaguete City, 6200 Negros Oriental	good	leased	33,000.00	28-Feb-18	
3	Ozamis City, Misamis Occidental	LKT Bldg., Don Anselmo Bernard Avenue, Ozamis City, 7200 Misamis Occidental	good	leased	36,382.50	30-May-18	
4	Iligan City, Lanao del Norte	0135 Quezon Ave. Extension, Pala-o, Iligan City, 9200 Lanao del Norte	good	leased	56,000.00	31-May-18	
5	Cagayan De Oro City	RAC Commercial Bldg., Claro M. Recto, Lapasan Highway, Cagayan de Oro City, 9000 Misamis Oriental	good	leased	26,001.00	28-Feb-15	
6	Valencia City, Bukidnon	Sayre Highway corner T. N. Pepito St., Valencia City, 8709 Bukidnon	good	leased	20,340.00	31-May-19	
7	Carcar City, Cebu	Lou Bldg. P. Nella St., Carcar City, 6019 Cebu	good	leased	29,230.40	19-Feb-19	
8	Imelda, ZamboangaSibugay	Clamohoy Bldg. Rizal St., Purok Poblacion, Imelda, 7007 Zamboanga Sibugay	good	leased	18,000.00	30-Jun-19	
9	Poblacion Kabasalan, Zamboanga S	Poblacion Kabasalan, Zamboanga Sibugay	good	leased	11,500.00	30-Jun-18	
10	Biñan City, Laguna	Alalmeda Arcade, Brgy. Platero,Biñan City, Laguna	good	leased	16,500.00	30-Jun-18	expired last 2017 and was extended for 1 year
11	Calamba City, Laguna	Kristine Business Center, Burgos Street corner Chipeco Avenue, Calamba City, Laguna	good	leased	11,200.00	30-Jun-18	expired last 2017 and was extended for 1 year
12	Los Baños, Laguna	National Highway, Brgy. San Antonio, Los Baños, Laguna	good	leased	25,000.00	30-Apr-20	
13	Oroquieta, Misamis Occidental	Capitol Drive, Oroquieta City, 7207 Misamis Occidental	good	leased	20,000.00	21-Feb.-21	
14	Piñan, Zamboanga del Norte	Poblacion Pinan, 7105 Zamboanga del Norte	good	leased	7,500.00	15-Jul.-19	
15	Manukan, Zamboanga del Norte	Caballero Bldg. National Highway, Poblacion Manukan, 7110 Zamboanga del Norte	good	leased	18,000.00	31-Mar.-21	
16	Liloy, Zamboanga del Norte	Insong Building, Magsaysay Street, Baybay, Liloy, 7115 Zamboanga del Norte	good	leased	20,000.00	31-OCT.-20	
17	Molave, Zamboanga del Sur	Rizal Ave., Makuguihon, Molave, 7023, Zamboanga del Sur	good	leased	25,000.00	31-Oct.-19	
18	Calamba, Misamis Occidental	Rotonda, Poblacion, Calamba, 7210 Misamis Occidental	good	leased	10,000.00	30-Apr-18	
19	Siayan, Zamboanga del Norte	National Highway, Poblacion, Siayan, 7113 Zamboanga del Norte	good	leased	2,000.00	30-Sept.-33	
20	Aurora, Zamboanga del Sur	National Highway, Poblacion, Aurora, 7020 Zamboanga del Sur	good	leased	15,000.00	31-Oct.-19	

PBCOM
PHILIPPINE BANK OF COMMUNICATIONS

PBCom Tower 6795 Ayala Avenue corner
V.A. Rufino St., 1226 Makati City, Philippines
+632 830-7000
www.pbcom.com.ph

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

PBCom Tower 6795 Ayala Avenue corner
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REPUBLIC OF THE PHILIPPINES)
CITY OF CITY OF MAKATI) SS.

SUBSCRIBED AND SWORN TO before me this APR 0 6 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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Page No. 89
Book No. XVI
Series of 2018

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Until December 31, 2018
IBP No. 656155-Lifetime Member
MCLE Compliance No. V-0006934
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

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	0	6	8	6	

COMPANY NAME

PHILIPPINE BANK OF COMMUNICATIONS

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

PBCom Tower, 6795 Ayala Avenue Corner V. A. Rufino Street, Makati City

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
	830-7000	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
		12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Angelo Patrick F. Advincula			

CONTACT PERSON's ADDRESS

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

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

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

The Stockholders and the Board of Directors
Philippine Bank of Communications
PBCom Tower, 6795 Ayala Avenue
Corner V. A. Rufino Street, Makati City

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.

BUREAU OF INTERNAL REVENUE
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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.

BUREAU OF INTERNAL REVENUE
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LARGE TAXPAYERS ASSURANCE DIVISION
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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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

- 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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 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

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

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)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

Securities and Exchange Commission
Electronic Records Management Division
18 APR 13 2018
BY:
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS
ICTD

	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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

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)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

	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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

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)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

	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.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 13 2018 TSIS
REGISTERED
MA. GRACIA AURORA L. CASTILLO

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.

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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				
		Fair Value			
	Carrying Value	Total	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				
		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	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**
					-0.10	**(4,035)**
			Discount for lack of marketability	**30%**	**+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
					-0.10	(1,410)
			Discount for lack of marketability	30%	+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	**9.80%**
			Vacancy rate	**10.00%**
			Rental rates	**₱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	**8.00%**
			Vacancy rate	**10.00%**
			Rental rates	**₱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	9.20%
			Vacancy rate	10.00%
			Rental rates	₱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	8.00%
			Vacancy rate	20.00%
			Rental rates	₱237 - ₱249
Land classified under Property and equipment (Note 13)	519,010	Market sales comparison approach	Price per square meter	₱16,000 - ₱110,000

Description	Fair Value at December 31, 2017	Valuation Technique(s)	Unobservable Input(s)	Range (in Nearest Peso)
		Parent Company		
Investment properties (Note 14)				
Condominium units for lease	**₱5,365,080**	Income capitalization approach	Capitalization rate	**9.80%**
			Vacancy rate	**10.00%**
			Rental rates	**₱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	**8.00%**
			Vacancy rate	**10.00%**
			Rental rates	**₱249 - ₱261**
Land classified under Property and equipment (Note 13)	**470,113**	Market sales comparison approach	Price per square meter	**₱16,000 - ₱110,000**

Description	Fair Value at December 31, 2016	Valuation Technique(s)	Unobservable Input(s)	Range (in Nearest Peso)
		Parent Company		
Investment properties (Note 14)				
Condominium units for lease	₱5,044,552	Income capitalization approach	Capitalization rate	9.20%
			Vacancy rate	10.00%
			Rental rates	₱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	8.00%
			Vacancy rate	20.00%
			Rental rates	₱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						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
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						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
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						
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Past Due But Not Impaired**	**Past Due and Impaired**	**Total**
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						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
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					
	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**	**–**	**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	**Risk Weights[b]**					
	Exposures[a]	**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*

	Consolidated						
	2016						
	Net	Risk Weights[b]					
	Exposures[a]	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					
	2017					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
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				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Beyond 1 Year**	**Total**
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				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	Total
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)			
Changes in interest rates (in basis points)	**+50**	**-50**	**+100**	**-100**
Change in annualized net interest income	**(₱66.46)**	**₱66.46**	**(₱132.93)**	**₱132.93**

	2016			
	Changes in Interest Rates (in Basis Points)			
Changes in interest rates (in basis points)	+50	-50	+100	-100
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	(₱543,621)	₱2,087,067	₱330,591	₱1,150,309	₱1,508	₱110,672	₱3,136,526	₱114,631	₱3,251,157
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	(₱71,367)	₱600,911	₱21,741	₱142,178	(₱1,476)	(₱197,578)	₱494,409	₱546,932	₱1,041,341
Segment results									
Net interest income (loss)	₱798,532	₱826,189	₱190,484	₱733,401	(₱636)	₱260,365	₱2,808,335	₱93,223	₱2,901,558
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	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱353,992**	**₱353,992**
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)	**(₱71,367)**	**₱591,993**	**(₱108,357)**	**₱129,675**	**(₱1,476)**	**(₱255,251)**	**₱285,217**	**₱433,482**	**₱718,699**
Segment assets									
Property and equipment	**₱445,005**	**₱–**	**₱–**	**₱62,725**	**₱–**	**₱1,220,945**	**₱1,728,675**	**(₱255,087)**	**₱1,473,588**
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	**₱11,950,912**	**₱39,065,373**	**₱25,621,908**	**₱13,951,692**	**₱70,712**	**₱8,485,451**	**₱99,146,048**	**₱74,202**	**₱99,220,250**
Total segment liabilities	**₱60,927,417**	**₱4,108,878**	**₱16,782,805**	**₱1,870,225**	**₱–**	**₱2,461,322**	**₱86,150,647**	**₱139,239**	**₱86,289,886**

	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	(₱508,091)	₱1,783,189	₱452,916	₱1,202,743	₱1,363	₱234,329	₱3,166,449	₱40,179	₱3,206,628
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	(₱332,054)	₱541,131	₱92,299	₱266,883	(₱1,800)	(₱252,010)	₱314,449	₱320,252	₱634,701
Segment results									
Net interest income (loss)	₱588,254	₱686,340	₱238,384	₱877,532	(₱792)	₱128,207	₱2,517,925	₱78,029	₱2,595,954
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	₱–	₱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
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)	(₱332,054)	₱539,652	(₱47,382)	₱234,937	(₱1,800)	(₱297,085)	₱96,268	₱303,784	₱400,052
Segment assets									
Property and equipment	₱542,402	₱–	₱–	₱113,287	₱–	₱1,314,184	₱1,969,873	(₱320,829)	₱1,649,044
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	₱11,266,020	₱34,323,086	₱22,905,776	₱9,524,895	₱69,413	₱8,110,394	₱86,199,584	₱299,149	₱86,498,733
Total segment liabilities	₱50,140,014	₱34,518	₱21,569,914	₱–	₱–	₱2,174,145	₱73,918,591	₱1,798,406	₱75,716,997

	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	₱2,003,627	(₱470,838)	₱9,212	₱736,644	₱7,914	₱45,968	₱2,332,527	(₱6,559)	₱2,325,968
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	₱1,016,487	(₱480,520)	(₱105,024)	₱111,760	(₱17,306)	(₱583,398)	(₱58,001)	₱748,019	₱690,018
Segment results									
Net interest income (loss)	₱2,003,627	(₱470,838)	₱9,212	₱736,644	₱7,914	₱45,968	₱2,332,527	(₱6,559)	₱2,325,968
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)	₱1,016,458	(₱482,022)	(₱243,166)	₱95,941	(₱17,306)	(₱621,502)	(₱251,597)	₱454,898	₱203,301
Segment assets									
Property and equipment	₱586,891	₱–	₱–	₱115,436	₱–	₱1,396,578	₱2,098,905	(₱308,103)	₱1,790,802
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	₱11,199,878	₱26,175,773	₱22,879,852	₱7,460,441	₱72,269	₱9,710,076	₱77,498,289	(₱1,421,973)	₱76,076,316
Total segment liabilities	₱49,447,498	₱43,578	₱14,001,994	₱2,080,091	₱100,000	₱2,934,254	₱68,607,415	(₱1,455,122)	₱67,152,293

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	**₱–**	₱–	₱–	**₱918,296**	₱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
	28,730
Liabilities	
Deposit liabilities	24,657
Bills payable and other borrowings	907
Accrued interest, taxes and other expenses	2,142
Other liabilities	347
	28,053
Net assets acquired	₱677

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

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

** 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				
	Land	**Buildings and Improvements**	**Total**	**Office Units for Lease**	**Condominium Units for Lease**
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				
	Land	Buildings and Improvements	Total	Office Units for Lease	Condominium Units for Lease
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				
	Land	**Buildings and Improvements**	**Total**	**Office Units for Lease**	**Condominium Units for Lease**
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				
	Land	Buildings and Improvements	Total	Office Units for Lease	Condominium Units for Lease
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)	**₱–**	**₱1,058,074**	**₱1,058,074**	₱–	₱1,023,334	₱1,023,334
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
	₱47,788,029	**₱54,001,935**	**101,789,964**	₱46,768,332	₱42,058,513	88,826,845
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			**₱97,359,678**			₱84,382,034
Financial liabilities						
Deposit liabilities:						
Demand	**₱19,480,422**	**₱–**	**₱19,480,422**	₱15,571,988	₱–	₱15,571,988
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
	₱78,728,440	**₱5,691,510**	**₱84,419,950**	₱67,222,032	₱6,369,987	₱73,592,019

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 Certicate 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:

	Consolidated	
Plan Year	**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

	Parent Company	
Plan Year	**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:

	2017		
Category	**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**	–	
Rent expense	**21,922**	–	Branch and office space leased for five years ending in various years, with 5% annual escalation.
Rent income	**3,567**	–	Five-year lease of branches, subject to pre-termination, with escalation rate of 5%.
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**	–	
Rent income	**133**	–	Five-year lease expiring in July 2018, with 5% annual escalation.
Subsidiaries:			
Deposit liabilities	**(27,677)**	**91,787**	Demand and savings deposit accounts with annual interest rates ranging of 0.1%.
Interest expense	**304**	–	
Rent income	**168**	–	Three-year lease expiring in May 2020 with 7.5% and 10% annual escalation on second and third year, respectively.
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**	–	
Trust fee	**2,379**	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
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**	–	
Trust fee	**2,175**	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

	2016		
Category	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	–	
Rent expense	17,650	–	Branch and office space leased for five years ending in various years, with 5% annual escalation.
Rent income	1,822	–	Five-year lease of branches, subject to pre-termination, with escalation rate of 5%.

(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%.
Interest expense	537	–	
Trust fee	1,940	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

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
	₱427,136

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
	₱439,098	₱36,817

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.

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
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Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

The 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 the consolidated financial statements of Philippine Bank of Communications (the Company) as at and for the year ended December 31, 2017, on which we have rendered the attached report dated April 4, 2018.

In compliance with Securities Regulations Code Rule 68, As Amended (2011), we are stating that as of December 31, 2017, the Company has three hundred fifty-one (351) stockholders owning one hundred (100) or more shares.

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

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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

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	-	
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	(57)	
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	-	
		(52)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		**(7,574,541)**

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 Phlippines	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 Phlippines	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.*
ii)	*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 elimated during the consolidation of Financial Statements

As of December 31, 2017

	Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
				(i)	(ii)			
	PBCom Insurance Agency, Inc.	855	2,516	(3,185)	-	186		186
	Rural Bank of Nagcarlan, Inc.	668	3,170	(3,345)	-	493		493
	Banco Dipolog, Inc., A rural bank	-	2,151	(866)	0	1,285		1,285
(i)	*If collection was other than in cash, explain.*							
(ii)	*Give reasons for write off.*							

Philippine Bank of Communications and Subsidairies
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 Subsiadiaries
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)	*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.*		
(ii)	*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.*		

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 sinificant 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

	Title of issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
	(i)				(ii)		(iii)
	COMMON	760,000,000	480,645,163			362,053,609	

(i)	*Include in this column each type of issue authorized.*
(ii)	*Related parties referred to include persons for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.*
(iii)	*Indicate in a note any significant changes since the date of the last balance sheet filed.*

	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 & taxe	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 Shar	359,925	299,565		

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*