6795 Ayala Avenue corner V.A. Rufino Street, Makati City, Philippines
(02) 777-2266 | 1-800-10-777-2266

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, 2018, 2017 and 2016, 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 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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company'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 company 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

ALAN E. ATIENZA
Treasurer

ARLENE M. DATU
Comptroller

March 27, 2019

REPUBLIC OF THE PHILIPPINES)
C I T Y CITY OF MAKATI) SS.

SUBSCRIBED AND SWORN TO before me this APR 0 5 2019 at CITY OF MAKATI, affiants, Eric O. Recto, Patricia May T. Siy, Alan E. Atienza and Arlene M. Datu, exhibiting to me their TIN 108-730-891, SSS#0373099955, SSS# 3335975674 and SSS # 0356633451, respectively.

ATTY. GERVACIO B. ORTIZ JR.
Notary Public Makati City
Until Dec. 31, 2019
Appointment No. M-183 (2019-2020)
PTR No. 7333104 Jan. 3, 2019/Makati
IBP Lifetime No. 656155 Roll No. 40091
MCLE Compliance No. V-0006934
101 Urban Ave. Campos Rueda Bldg.,
Brgy. Pio Del Pilar, Makati City

Doc. No. 411
Page No. 84
Book No. 21
Series of 2019

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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C O M P A N Y   N A M E

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		

C O M P A N Y   I N F O R M A T I O N

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
405		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.

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated and Parent Company Financial Statements

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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018, 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.

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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

Adoption of the final version of PFRS 9, Financial Instruments
On January 1, 2018, the Group adopted the final version of PFRS 9, *Financial Instruments (2014 version)*, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*, and the previous versions of PFRS 9 (2009, 2010 and 2013 versions). The Group has previously adopted the 2010 version of PFRS 9 with initial application date of January 1, 2014. PFRS 9 (2014) introduces a forward-looking expected credit loss (ECL) model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts.

The Group's adoption of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating and the expected recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

The application of the ECL model increased the Group's and the Parent Company's allowance for credit losses as of January 1, 2018 by ₱245.20 million and ₱188.72 million, respectively. The Group's and the Parent Company's provision for credit losses in 2018 using the ECL model amounted to ₱263.92 million and ₱206.30 million, respectively.

Refer to Notes 2 and 17 of the financial statements for the disclosure on the transition adjustments and details of the allowance for credit losses using the ECL model, respectively.

Audit response
We obtained an understanding of the board-approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place, (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (e) tested exposure at default considering outstanding commitments and repayment scheme; (f) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios

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and broader industry knowledge; and (g) tested the effective interest rate used in discounting the expected loss.

Further, we checked the accuracy and completeness of data used in the ECL models by reconciling data from source system reports to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

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 involved our internal specialist in understanding 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, 2018 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, 2018, which are expected to be made available to us after that date.

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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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 37 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

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-4 (Group A),
November 13, 2018, valid until November 12, 2021
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332515, January 3, 2019, Makati City

March 27, 2019

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION

	Consolidated			Parent Company		
	December 31		January 1	December 31		January 1
	2018	2017 (As restated - Note 2)	2017 (As restated - Note 2)	**2018**	2017 (As restated - Note 2)	2017 (As restated - Note 2)
	(Amounts in Thousands)					
ASSETS						
Cash and Other Cash Items	**₱1,389,869**	₱974,207	₱1,042,611	**₱1,357,609**	₱941,823	₱1,011,756
Due from Bangko Sentral ng Pilipinas (Notes 18 and 19)	**15,224,382**	15,340,711	13,356,075	**15,168,302**	15,279,084	13,276,681
Due from Other Banks	**379,723**	1,166,063	2,996,758	**228,578**	965,820	2,631,497
Interbank Loans Receivable (Note 8)	**206,964**	534,925	310,131	**206,964**	534,925	310,131
Financial Assets at Fair Value through Profit or Loss (Note 9)	**893,216**	2,740,471	300,483	**893,216**	2,740,471	300,483
Financial Assets at Fair Value through Other Comprehensive Income (Note 10)	**6,798,230**	90,639	52,242	**6,798,230**	90,639	52,242
Investment Securities at Amortized Cost (Note 11)	**13,341,599**	15,417,201	13,135,494	**13,341,599**	15,417,201	13,135,494
Loans and Receivables (Note 12)	**60,079,206**	53,352,967	46,089,437	**58,221,179**	51,619,999	44,303,654
Investments in Subsidiaries and an Associate (Note 7)	**13,318**	13,068	12,376	**990,226**	1,007,030	988,855
Property and Equipment (Note 13)	**1,021,349**	1,108,873	1,292,777	**922,943**	1,007,431	1,181,599
Investment Properties (Note 14)						
Condominium units for lease	**1,832,726**	1,883,696	1,928,968	**1,832,726**	1,883,696	1,928,969
Foreclosed properties	**772,425**	736,539	735,298	**612,535**	547,825	547,204
Office units for lease	**3,624**	3,999	2,385	**3,624**	3,999	2,385
Goodwill (Note 15)	**182,227**	182,227	178,456	–	–	–
Intangible Assets (Note 15)	**703,775**	744,179	781,166	**439,983**	480,433	516,008
Deferred Tax Assets - Net (Note 30)	**74,487**	55,942	59,717	**40,808**	67,638	83,352
Other Assets (Note 16)	**832,202**	697,943	509,333	**808,283**	683,599	493,863
TOTAL ASSETS	**₱103,749,322**	₱95,043,650	₱82,783,707	**₱101,866,805**	₱93,271,613	₱80,764,173
LIABILITIES AND EQUITY						
LIABILITIES						
Deposit Liabilities (Notes 18 and 31)						
Demand	**₱20,257,138**	₱19,400,193	₱15,464,230	**₱20,262,969**	₱19,480,422	₱15,571,988
Savings	**7,810,642**	8,329,526	6,943,767	**7,262,325**	7,790,785	6,400,070
Time	**43,058,221**	43,006,098	40,737,984	**41,907,303**	41,773,807	39,227,043
Long-term negotiable certificates of deposits	**2,902,730**	–	–	**2,902,730**	–	–
	74,028,731	70,735,817	63,145,981	**72,335,327**	69,045,014	61,199,101
Bills Payable (Note 19)	**17,659,083**	12,567,399	10,099,384	**17,591,284**	12,567,399	10,099,384
Outstanding Acceptances	**46,344**	64,085	34,357	**46,344**	64,085	34,357
Manager's Checks	**97,447**	427,405	300,385	**97,447**	427,405	300,385
Accrued Interest, Taxes and Other Expenses (Note 20)	**685,009**	421,666	414,575	**642,697**	391,771	382,452
Income Tax Payable	**3,735**	13,458	240	**1,791**	14,945	182
Deferred Tax Liabilities - Net (Note 30)	**66,261**	39,448	33,523	–	–	–
Other Liabilities (Note 21)	**836,798**	831,201	616,552	**816,605**	808,429	601,293
TOTAL LIABILITIES	**93,423,408**	85,100,479	74,644,997	**91,531,495**	83,319,048	72,617,154

(Forward)

	Consolidated			Parent Company		
	December 31		January 1	December 31		January 1
	2018	2017 (As restated - Note 2)	2017 (As restated - Note 2)	2018	2017 (As restated - Note 2)	2017 (As restated - Note 2)
	(Amounts in Thousands)					
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
Common stock (Note 23)	**₱12,016,129**	₱12,016,129	₱7,489,114	**₱12,016,129**	₱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**	2,252,826	813,515	**2,262,246**	2,262,246	813,601
Surplus reserves (Note 23)	**105,893**	105,824	105,772	**105,893**	105,824	105,772
Deficit (Notes 2 and 23)	**(3,916,336)**	(4,311,607)	(4,708,011)	**(3,916,336)**	(4,311,607)	(4,708,011)
Unrealized gain on financial assets carried at fair value through other comprehensive income (Note 10)	**19,416**	64,104	33,621	**19,416**	64,104	33,621
Cumulative translation adjustment	**(177,059)**	(122,263)	(72,739)	**(177,059)**	(122,263)	(72,739)
Remeasurement gains (losses) on retirement liability (Note 27)	**25,021**	(61,868)	(95,679)	**25,021**	(61,868)	(95,679)
	10,325,890	9,943,145	8,146,933	**10,335,310**	9,952,565	8,147,019
NON-CONTROLLING INTERESTS	**24**	26	(8,223)	–	–	–
TOTAL EQUITY	**10,325,914**	9,943,171	8,138,710	**10,335,310**	9,952,565	8,147,019
TOTAL LIABILITIES AND EQUITY	**₱103,749,322**	₱95,043,650	₱82,783,707	**₱101,866,805**	₱93,271,613	₱80,764,173

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
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PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)
	(Amounts in Thousands, Except Earnings per Share)					
INTEREST INCOME						
Loans and receivables (Notes 12 and 31)	**₱4,028,267**	₱3,215,921	₱2,902,068	**₱3,723,359**	₱2,921,310	₱2,539,901
Investment securities (Note 26)	**724,818**	690,658	676,016	**724,818**	690,658	676,016
Interbank loans receivable and securities purchased under resale agreements (Note 8)	**41,291**	38,905	19,073	**41,291**	38,905	19,073
Deposits with other banks	**11,345**	15,826	37,583	**10,845**	12,739	37,202
	4,805,721	3,961,310	3,634,740	**4,500,313**	3,663,612	3,272,192
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 18 and 31)	**1,218,928**	834,585	861,401	**1,161,819**	773,574	799,652
Bills payable, borrowings and others (Note 19)	**472,406**	225,167	177,385	**468,685**	225,029	176,704
	1,691,334	1,059,752	1,038,786	**1,630,504**	998,603	976,356
NET INTEREST INCOME	**3,114,387**	2,901,558	2,595,954	**2,869,809**	2,665,009	2,295,836
Rent income (Notes 14, 28 and 31)	**661,017**	563,259	474,213	**661,196**	563,245	474,105
Service charges, fees and commissions	**383,082**	362,842	363,635	**342,915**	317,721	326,484
Foreign exchange gain - net	**49,953**	69,787	11,474	**49,953**	69,787	11,474
Trading and securities gain (loss) - net (Note 26)	**23,336**	(13,243)	48,339	**23,336**	(13,243)	48,339
Gain (loss) on assets exchange - net (Note 14)	**23,112**	5,406	32,097	**13,133**	(162)	32,094
Income from trust operations (Note 25)	**15,707**	15,404	16,864	**15,707**	15,404	16,864
Profit (loss) from assets sold (Notes 13, 14 and 16)	**12,763**	30,529	8,641	**(9,562)**	21,966	4,685
Gain on reclassification of investment securities from amortized cost to fair value through profit or loss (Note 3)	**–**	–	198,700	**–**	–	198,700
Miscellaneous	**126,720**	121,066	51,071	**114,178**	103,478	39,061
TOTAL OPERATING INCOME	**4,410,077**	4,056,608	3,800,988	**4,080,665**	3,743,205	3,447,642

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)
	(Amounts in Thousands, Except Earnings per Share)					
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 14, 27 and 31)	**₱1,153,384**	₱1,162,952	₱1,181,173	**₱1,039,169**	₱1,055,169	₱1,074,104
Taxes and licenses (Notes 14 and 30)	**575,537**	457,442	406,471	**542,911**	427,136	377,609
Depreciation and amortization (Note 13)	**404,353**	419,853	415,314	**386,917**	395,332	393,493
Provision for credit and impairment losses - net (Notes 14 and 17)	**267,736**	338,595	473,454	**209,914**	288,911	391,581
Occupancy and other equipment-related costs (Notes 14, 28 and 31)	**260,517**	224,351	184,412	**243,769**	210,864	173,159
Insurance	**148,804**	131,050	126,452	**141,847**	124,391	119,230
Management and professional fees	**116,025**	108,090	150,628	**112,889**	103,161	147,839
Security, clerical, messengerial and janitorial services	**110,397**	94,006	84,980	**96,135**	81,549	75,177
Entertainment, amusement and recreation	**86,342**	82,364	77,515	**86,137**	81,981	77,198
Communications	**56,020**	55,852	58,180	**53,647**	53,595	56,303
Miscellaneous (Notes 14 and 29)	**377,247**	369,939	323,713	**338,047**	331,953	289,543
TOTAL OPERATING EXPENSES	**3,556,362**	3,444,494	3,482,292	**3,251,382**	3,154,042	3,175,236
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND AN ASSOCIATE	**853,715**	612,114	318,696	**829,283**	589,163	272,406
SHARE IN NET INCOME OF SUBSIDIARIES (Note 7)	–	–	–	**22,981**	10,649	25,064
SHARE IN NET INCOME OF AN ASSOCIATE (Note 7)	**250**	692	263	**250**	692	263
INCOME BEFORE INCOME TAX	**853,965**	612,806	318,959	**852,514**	600,504	297,733
PROVISION FOR INCOME TAX (Note 30)	**227,729**	216,347	151,995	**226,281**	204,048	130,597
NET INCOME	**₱626,236**	₱396,459	₱166,964	**₱626,233**	₱396,456	₱167,136
Attributable to:						
Equity holders of the Parent Company	**₱626,233**	₱396,456	₱167,136			
Non-controlling interests	**3**	3	(172)			
	₱626,236	₱396,459	₱166,964			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱1.30**	₱0.82	₱0.35			

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	**₱626,236**	₱396,459	₱166,964	**₱626,233**	₱396,456	₱167,136
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX						
Items that may be reclassified to profit or loss in subsequent periods:						
Net unrealized loss on debt securities at fair value through other comprehensive income (Note 10)	**(114,964)**	–	–	**(114,964)**	–	–
Net movement in cumulative translation adjustment	**(54,796)**	(49,524)	(20,345)	**(54,796)**	(49,524)	(20,345)
Unrealized gain as a result of reclassification of debt securities from amortized cost to fair value through other comprehensive income (Note 3)	**56,901**	–	–	**56,901**	–	–
	(112,859)	(49,524)	(20,345)	**(112,859)**	(49,524)	(20,345)
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)	**14,479**	38,397	7,790	**14,479**	38,397	7,790
Change in remeasurement gains on retirement liability (Note 27)	**97,755**	34,587	76,549	**94,704**	31,424	77,695
Income tax relating to change in remeasurement gains on retirement liability	**(10,866)**	(776)	437	**(9,951)**	–	–
Income tax relating to unrealized gain on equity securities carried at fair value through other comprehensive income	**(1,450)**	(7,914)	–	**(1,450)**	(7,914)	–
	99,918	64,294	84,776	**97,782**	61,907	85,485
	(12,941)	14,770	64,431	**(15,077)**	12,383	65,140
TOTAL OTHER COMPREHENSIVE INCOME BEFORE SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIES	**613,295**	411,229	231,395	**611,156**	408,839	232,276
SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIES						
Item that may not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement losses (gains) on retirement liability (Note 7)	–	–	–	**3,051**	3,163	(1,146)
Income tax relating to components of other comprehensive income (Note 7)	–	–	–	**(915)**	(776)	437
	–	–	–	**2,136**	2,387	(709)
TOTAL OTHER COMPREHENSIVE INCOME	**₱613,295**	₱411,229	₱231,395	**₱613,292**	₱411,226	₱231,567
Attributable to:						
Equity holders of the Parent Company	**₱613,292**	₱411,226	₱231,567			
Non-controlling interests	**3**	3	(172)			
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱613,295**	₱411,229	₱231,395			

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

Consolidated

Years Ended December 31, 2018, 2017 and 2016

Equity Attributable to Equity Holders of the Parent Company

(Amounts in Thousands)

	Common Stock (Note 23)	Subscribed Common Stock - net (Note 23)	Additional Paid-in Capital	Surplus Reserves (Note 23)	Deficit (Notes 2 and 23)	Unrealized Gain (Loss) on Financial Assets Carried at Fair Value Through Other Comprehensive Income (Note 10)	Revaluation Increment on Land, Office Units and Condominium Properties	Cumulative Translation Adjustment	Remeasurement Gains (Losses) on Retirement Liability (Note 27)	Total	Non-Controlling Interests	Total Equity
Balances at December 31, 2017, as previously reported	**₱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**
Effect of change in accounting policy for investment properties and land (Note 2)	–	–	–	–	(2,685,317)	–	(301,846)	–	–	(2,987,163)	(30)	(2,987,193)
Balances at January 1, 2018, as restated	12,016,129	–	2,252,826	105,824	(4,311,607)	64,104	–	(122,263)	(61,868)	9,943,145	26	9,943,171
Effect of the adoption of PFRS 9, *Financial Instruments* (Note 2)	–	–	–	–	(230,893)	346	–	–	–	(230,547)	(5)	(230,552)
Balances at January 1, 2018	12,016,129	–	2,252,826	105,824	(4,542,500)	64,450	–	(122,263)	(61,868)	9,712,598	21	9,712,619
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	626,233	(45,034)	–	(54,796)	86,889	613,292	3	613,295
Balances at December 31, 2018	**₱12,016,129**	**₱–**	**₱2,252,826**	**₱105,893**	**(₱3,916,336)**	**₱19,416**	**₱–**	**(₱177,059)**	**₱25,021**	**₱10,325,890**	**₱24**	**₱10,325,914**
Balances at January 1, 2017, as previously reported	₱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
Effect of change in accounting policy for investment properties and land (Note 2)	–	–	–	–	(2,362,768)	–	(280,228)	–	–	(2,642,996)	(30)	(2,643,026)
Balances at January 1, 2017, as restated	7,489,114	4,581,340	813,515	105,772	(4,708,011)	33,621	–	(72,739)	(95,679)	8,146,933	(8,223)	8,138,710
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	–	–	–	–	–	–	–	–	–
Transfer to surplus reserves	–	–	–	52	(52)	–	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	396,456	30,483	–	(49,524)	33,811	411,226	3	411,229
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	(₱4,311,607)	₱64,104	₱–	(₱122,263)	(₱61,868)	₱9,943,145	₱26	₱9,943,171
Balances at January 1, 2016, as previously reported	₱7,489,114	₱3,187,019	₱813,601	₱105,772	(₱2,745,295)	₱25,831	₱280,228	(₱52,394)	(₱172,665)	₱8,931,211	(₱7,176)	₱8,924,035
Effect of change in accounting policy for investment properties and land (Note 2)	–	–	–	–	(2,129,852)	–	(280,228)	–	–	(2,410,080)	(30)	(2,410,110)
Balances at January 1, 2016, as restated	7,489,114	3,187,019	813,601	105,772	(4,875,147)	25,831	–	(52,394)	(172,665)	6,521,131	(7,206)	6,513,925
Collection of subscription receivable (Note 23)	–	1,394,321	–	–	–	–	–	–	–	1,394,321	–	1,394,321
Total comprehensive income (loss) for the year	–	–	–	–	167,136	7,790	–	(20,345)	76,986	231,567	(172)	231,395
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	(₱4,708,011)	₱33,621	₱–	(₱72,739)	(₱95,679)	₱8,146,933	(₱8,223)	₱8,138,710

See accompanying Notes to Financial Statements.

Parent Company
Years Ended December 31, 2018, 2017 and 2016

	Common Stock (Note 23)	Subscribed Common Stock - net (Note 23)	Additional Paid-in Capital	Surplus Reserves (Note 23)	Deficit (Notes 2 and 23)	Unrealized Gain (Loss) on Financial Assets Carried at Fair Value Through Other Comprehensive Income (Note 10)	Revaluation Increment on Land, Office Units and Condominium Properties	Cumulative Translation Adjustment	Remeasurement Gains (Losses) on Retirement Liability (Note 27)	Total Equity
						(Amounts in Thousands)				
Balances at December 31, 2017, as previously reported	**₱12,016,129**	**₱–**	**₱2,262,246**	**₱105,824**	**(₱1,626,290)**	**₱64,104**	**₱301,846**	**(₱122,263)**	**(₱61,868)**	**₱12,939,728**
Effect of change in accounting policy for investment properties and land (Note 2)	–	–	–	–	(2,685,317)	–	(301,846)	–	–	(2,987,163)
Balances at January 1, 2018, as restated	**12,016,129**	–	**2,262,246**	**105,824**	**(4,311,607)**	**64,104**	–	**(122,263)**	**(61,868)**	**9,952,565**
Effect of the adoption of PFRS 9, *Financial Instruments* (Notes 2 and 3)	–	–	–	–	(230,893)	346	–	–	–	(230,547)
Balances at January 1, 2018	**12,016,129**	–	**2,262,246**	**105,824**	**(4,542,500)**	**64,450**	–	**(122,263)**	**(61,868)**	**9,722,018**
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	626,233	(45,034)	–	(54,796)	86,889	613,292
Balances at December 31, 2018	**₱12,016,129**	**₱–**	**₱2,262,246**	**₱105,893**	**(₱3,916,336)**	**₱19,416**	**₱–**	**(₱177,059)**	**₱25,021**	**₱10,335,310**
Balances at January 1, 2017, as previously reported	₱7,489,114	₱4,581,340	₱813,601	₱105,772	(₱2,345,243)	₱33,621	₱280,228	(₱72,739)	(₱95,679)	₱10,790,015
Effect of change in accounting policy for investment properties and land (Note 2)	–	–	–	–	(2,362,768)	–	(280,228)	–	–	(2,642,996)
Balances at January 1, 2017, as restated	7,489,114	4,581,340	813,601	105,772	(4,708,011)	33,621	–	(72,739)	(95,679)	8,147,019
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	–	–	–	–	–	–	–
Transfer of surplus reserves	–	–	–	52	(52)	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	396,456	30,483	–	(49,524)	33,811	411,226
Balances at December 31, 2017	₱12,016,129	₱–	₱2,262,246	₱105,824	(₱4,311,607)	₱64,104	₱–	(₱122,263)	(₱61,868)	₱9,952,565
Balances at January 1, 2016, as previously reported	₱7,489,114	₱3,187,019	₱813,601	₱105,772	(₱2,745,295)	₱25,831	₱280,228	(₱52,394)	(₱172,665)	₱8,931,211
Effect of change in accounting policy for investment properties and land (Note 2)	–	–	–	–	(2,129,852)	–	(280,228)	–	–	(2,410,080)
Balances at January 1, 2016, as restated	7,489,114	3,187,019	813,601	105,772	(4,875,147)	25,831	–	(52,394)	(172,665)	6,521,131
Collection of subscription receivable (Note 23)	–	1,394,321	–	–	–	–	–	–	–	1,394,321
Total comprehensive income (loss) for the year	–	–	–	–	167,136	7,790	–	(20,345)	76,986	231,567
Balances at December 31, 2016	₱7,489,114	₱4,581,340	₱813,601	₱105,772	(₱4,708,011)	₱33,621	₱–	(₱72,739)	(₱95,679)	₱8,147,019

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱853,965**	₱612,806	₱318,959	**₱852,514**	₱600,504	₱297,733
Adjustments to reconcile income before income tax to net cash generated from (used for) operations:						
Provision for credit and impairment losses (Note 17)	**267,736**	338,595	473,454	**209,914**	288,911	391,581
Depreciation and amortization (Note 13)	**404,353**	419,853	415,314	**386,917**	395,332	393,493
Accretion of interest on unquoted debt securities (Note 12)	**(94,844)**	(93,478)	(180,520)	**(94,844)**	(93,478)	(180,520)
Loss (profit) from assets sold (Notes 13, 14 and 16)	**(12,763)**	(30,529)	(8,641)	**9,562**	(21,966)	(4,685)
Unrealized loss (gain) on financial assets at fair value through profit or loss (Note 26)	**(23,336)**	13,243	(48,339)	**(23,336)**	13,243	(48,339)
Share in net income of subsidiaries and an associate (Note 7)	**(250)**	(692)	(263)	**(23,231)**	(11,341)	(25,327)
Loss (gain) on assets exchange (Note 14)	**(23,112)**	(5,406)	(32,097)	**(13,133)**	162	(32,094)
Gain on reclassification of investment securities from amortized cost to fair value through profit or loss (Note 11)	–	–	(198,700)	–	–	(198,700)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Loans and receivables (Note 33)	**(7,397,337)**	(7,548,902)	(9,969,993)	**(7,156,411)**	(7,738,667)	(9,970,103)
Financial assets at fair value through profit or loss	**1,870,591**	(2,453,231)	341,813	**1,870,591**	(2,453,231)	341,813
Other assets	**(70,826)**	(326,804)	114,830	**(63,370)**	(165,318)	118,625
Increase (decrease) in the amounts of:						
Deposit liabilities	**3,292,913**	7,565,179	4,843,628	**3,290,312**	7,845,913	4,643,587
Manager's checks	**(329,958)**	127,020	191,472	**(329,958)**	127,020	191,472
Accrued interest, taxes and other expenses	**263,343**	4,949	(124,610)	**250,926**	40,743	(118,962)
Other liabilities	**7,918**	240,749	79,219	**9,202**	207,515	73,911
Net cash used for operations	**(991,607)**	(1,136,648)	(3,784,474)	**(824,345)**	(964,658)	(4,126,515)
Income taxes paid	**(231,355)**	(197,870)	(192,375)	**(227,778)**	(181,616)	(152,818)
Net cash used in operating activities	**(1,222,962)**	(1,334,518)	(3,976,849)	**(1,052,123)**	(1,146,274)	(4,279,333)
CASH FLOWS FROM INVESTING ACTIVITIES						
Decrease (increase) in interbank loans receivable	**49,290**	(12,692)	(49,720)	**49,290**	(12,692)	(49,720)
Acquisitions of:						
Financial assets at FVTOCI	**(18,656,439)**	–	–	**(18,656,439)**	–	–
Investment securities at amortized cost	**(41,444)**	(2,351,707)	(2,264,061)	**(41,444)**	(2,351,707)	(2,264,061)
Property and equipment (Note 13)	**(123,170)**	(45,848)	(146,030)	**(109,712)**	(45,848)	(136,227)
Software costs (Note 15)	**(33,583)**	(30,358)	(32,984)	**(32,979)**	(30,358)	(32,140)
Investment properties (Notes 13 and 14)	**(423)**	–	(30,005)	**(423)**	–	(30,005)
Subsidiaries (Note 7)	–	(2,634)	–	–	–	–
Additional investments in subsidiaries (Note 7)	–	(1,088)	–	–	–	(45,942)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)	2018	2017 (As restated - Note 2)	2016 (As restated - Note 2)
	(Amounts in Thousands)					
Proceeds from disposals of:						
Financial assets at FVTOCI	**₱13,604,095**	₱–	₱–	**₱13,604,095**	₱–	₱–
Investment properties (Note 14)	**62,938**	62,984	48,837	**1,128**	57,032	50,323
Property and equipment (Note 13)	**14,816**	15,860	24,272	**14,293**	11,102	24,272
Chattel mortgage	**154,313**	85,349	11,839	**154,313**	85,349	11,839
Proceeds from maturity of investment securities	**405,000**	70,000	3,596,957	**405,000**	70,000	3,596,957
Net cash provided by (used in) investing activities	**(4,564,607)**	(2,210,134)	1,159,105	**(4,612,878)**	(2,217,122)	1,125,296
CASH FLOWS FROM FINANCING ACTIVITIES						
Availments of:						
Bills payable	**423,360,260**	190,375,643	103,725,503	**423,185,782**	190,375,643	103,725,500
Outstanding acceptances	**265,439**	324,197	405,111	**265,440**	324,197	405,111
Marginal deposits	**2,391**	3,410	37,683	**2,391**	3,410	37,683
Settlements of:						
Bills payable	**(418,263,661)**	(187,907,410)	(100,107,738)	**(418,156,982)**	(187,907,410)	(99,922,984)
Outstanding acceptances	**(285,122)**	(295,302)	(412,820)	**(285,123)**	(295,302)	(412,820)
Marginal deposits	**(2,619)**	(3,043)	(39,033)	**(2,619)**	(3,043)	(39,033)
Proceeds from shares subscription (Note 23)	–	1,394,320	1,394,321	–	1,394,320	1,394,321
Net cash provided by financing activities	**5,076,688**	3,891,815	5,003,027	**5,008,889**	3,891,815	5,187,778
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**(54,796)**	(49,524)	(20,345)	**(54,796)**	(49,524)	(20,345)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(765,677)**	297,639	2,164,938	**(710,908)**	478,895	2,013,396
CASH AND CASH EQUIVALENTS AT BEGINNING 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
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**1,389,869**	974,207	1,042,611	**1,357,609**	941,823	1,011,756
Due from Bangko Sentral ng Pilipinas	**15,224,382**	15,340,711	13,356,075	**15,168,302**	15,279,084	13,276,681
Due from other banks	**379,723**	1,166,063	2,996,758	**228,578**	965,820	2,631,497
Interbank loans receivable (Note 33)	**193,843**	472,513	260,411	**193,843**	472,513	260,411
	₱17,187,817	₱17,953,494	₱17,655,855	**₱16,948,332**	₱17,659,240	₱17,180,345

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
	(Amounts in Thousands)					
Interest paid	**₱1,514,955**	₱1,040,615	₱1,061,279	**₱1,461,109**	₱973,150	₱996,632
Interest received	**4,678,218**	3,851,860	3,554,941	**4,368,913**	3,485,682	3,352,973

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Bank of Communications (the Parent Company) is a publicly listed domestic commercial bank organized in the Philippines, primarily to engage in commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services through a network of 89 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
	2018	2017		
Subsidiaries				
PBCom Rural Bank, Inc. (formerly Banco Dipolog, Inc. A Rural Bank (BDI)) (PRBI)	**99.99%**	99.99%	Philippines	Rural Bank
Rural Bank of Nagcarlan, Inc. (RBNI)	–	–*	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).*

On July 9, 2018, through the approval granted by the SEC, BDI officially changed its corporate name to PBCom Rural Bank, Inc. On July 27, 2018, the BSP authorized the change in the corporate name.

On July 26, 2018, the Monetary Board of the BSP, in its Resolution No. 1220, approved the Parent Company's issuance of the Long-Term Negotiable Certificates of Deposits (LTNCD) of up to ₱5.00 billion in one or more tranches over the course of one year, with minimum tenor of 5 years and 1 day to a maximum of 7 years. The purpose of the issuance is specifically for long-term funding.

Rehabilitation Plan
Pursuant to the Financial Recovery and Rehabilitation Plan, which was approved by the BSP on March 25, 2004, the Parent Company obtained a ₱7.64 billion loan under the Philippine Deposit Insurance Corporation (PDIC) Financial Assistance Agreement (FAA) payable at the end of the 10th year at an interest rate of 1.00% per annum. The proceeds of the said loan was used to purchase Government Securities (GS Collateral) which was pledged to PDIC to secure the loan origination.

As part of the provisions of the FAA:
a. The major stockholders infused ₱3.00 billion fresh capital to the Parent Company; and
b. Non-performing assets were sold to the SPV resulting to an actual loss (SPV losses) of ₱10.80 billion. The Parent Company availed of the provisions of Republic Act (RA) No. 9128, *the Special Purpose Vehicle Act of 2002*, allowing it to defer or amortize the SPV losses over 10 years.

The Parent Company exited from the 10-year FAA when the said loan was fully settled on March 26, 2014.

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 were 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 beneficially owned by the family of 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).

In 2015, both PGH and VFC bought additional 2.40 million shares. The following year, additional 0.49 million shares and 9.49 million shares were acquired by PGH and VFC, respectively. In 2018, PGH bought an additional 2.27 million shares bringing the Co Family's total stake in the Parent Company at 53.65%.

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), financial assets at fair value through other comprehensive income (FVTOCI) and derivatives that are measured at fair 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 an adjustment 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 for the adoption of new standards and amendments effective as of January 1, 2018, and the application of the cost method of accounting on investment properties and land effective January 1, 2018. Previously, the Group accounted for investment properties and land using the fair value model and the revaluation method, respectively. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applied the final version of PFRS 9, *Financial Instruments*, and PFRS 15, *Revenue from Contracts with Customers* effective January 1, 2018. The nature and effect of these changes are disclosed below.

PFRS 9 (2014), *Financial Instruments*
Effective January 1, 2018, PFRS 9 replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 (2014) also supersedes all earlier versions of PFRS 9, thereby bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting. In 2014, the Group early adopted the 2010 version of PFRS 9. The key changes introduced by PFRS (2014) from the version early adopted by the Group are as follows:

- Limited amendments to the classification and measurement requirements for financial assets that introduced a FVTOCI category for eligible debt financial assets; and
- Introduction of the expected credit loss (ECL) model in determining impairment on all financial assets that are not measured at FVTPL and loan commitments and financial guarantee contracts that are not measured at FVTPL.

Classification and measurement
Debt financial assets classified under the FVTOCI category are both held in order to collect contractual cash flows and to realize fair value gains by selling the instruments. Changes in the fair value of FVTOCI debt securities are recognized in OCI up until derecognition, when the fair value change will be recognized in profit or loss. As a result of the adoption of PFRS 9 (2014), starting January 1, 2018, the Group adopted this new FVTOCI category for debt financial assets, in addition to the existing categories of at Amortized Cost and at FVTPL.

Impairment of financial assets
The adoption of PFRS 9 has significantly changed the Group’s credit loss methodology and models, by replacing PAS 39’s incurred loss approach with a forward-looking ECL approach. PFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, including loan commitments and financial guarantee contracts.

ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, allowance for ECLs is measured at amounts equal to either:

- 12-month ECL; or
- Lifetime ECL for those financial instruments which have experienced a SICR since initial recognition.

The 12-month ECL is a portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the statement of financial position date. The lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument.

In comparison, the previous incurred loss model under the PAS 39 recognizes lifetime credit losses only when there is objective evidence of impairment while the ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier.

To reflect the differences between PFRS 9 and PAS 39, PFRS 7, *Financial Instruments: Disclosures*, was updated and the Group has adopted it, together with PFRS 9 as at January 1, 2018. Changes include transition disclosures as shown under 'Transition to PFRS 9' below, and detailed qualitative and quantitative information about the ECL calculations, such as the assumptions and inputs used, which are disclosed in Notes 3 and 5.

At January 1, 2018, the Group determined the amount of provision required under the ECL approach, in accordance with its existing governance framework relevant to the proper implementation of PFRS 9. The Group continues to refine its processes to enhance its implementation of PFRS 9, subject to any further guidance to be provided by the BSP.

The Group chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

- Comparative information for prior period has not been restated. Accordingly, the information presented for 2017 and 2016 do not reflect the requirements of PFRS 9.
- The difference between the previous carrying amount and the carrying amount at the beginning of the period that includes the date of initial application is recognized in the opening 'Deficit'.

Transition to PFRS 9

As at January 1, 2018, the effect of adopting the final version of PFRS 9, specifically the adoption of the ECL model, is as follows (amounts in thousands):

	Consolidated	Parent Company
	Increase (Decrease) in:	
Interbank loans receivable	(₱12)	(₱12)
Investment securities at amortized cost	(9,005)	(9,005)
Loans and other receivables	(235,832)	(179,355)
Investments in subsidiaries and an associate	–	(42,175)
Deferred tax assets	14,297	–
Total assets	**(₱230,552)**	**(₱230,547)**
Deficit	(₱230,893)	(₱230,893)
Unrealized gain on financial assets carried at fair value through other comprehensive income	346	346
Non-controlling interests	(5)	–
Total equity	**(₱230,552)**	**(₱230,547)**

The following table reconciles the aggregate opening balance of allowance for credit and impairment losses under PAS 39 to the ECL allowances under PFRS 9:

	Consolidated		
	Allowance for Credit and Impairment Losses under PAS 39 as of December 31, 2017	Remeasurement	Allowance for ECL under PFRS 9 as of January 1, 2018
Interbank loans receivable	₱–	₱12	₱12
Investment securities:			
At amortized cost	–	9,005	9,005
At FVTOCI	–	346	346
Loans and other receivables:			
Receivables from customers:			
Corporate loans	1,378,712	146,849	1,525,561
Auto loans	297,519	68,854	366,373
Home loans	5,380	44,871	50,251
Personal loans	460,514	(27,868)	432,646
	2,142,125	232,706	2,374,831
Unquoted debt securities	–	1,205	1,205
Accrued interest receivable	385,454	(4,567)	380,887
Accounts receivable	30,667	–	30,667
Sales contracts receivable	11,833	6,488	18,321
	2,570,079	235,832	2,805,911
	₱2,570,079	₱245,195	₱2,815,274

	Parent Company		
	Allowance for Credit and Impairment Losses under PAS 39 as of December 31, 2017	Remeasurement	Allowance for ECL under PFRS 9 as of January 1, 2018
Interbank loans receivable	₱–	₱12	₱12
Investment securities:			
At amortized cost	–	9,005	9,005
At FVTOCI	–	346	346
Loans and other receivables:			
Receivables from customers:			
Corporate loans	1,378,712	146,849	1,525,561
Auto loans	297,519	68,854	366,373
Home loans	5,380	44,871	50,251
Personal loans	454,217	(83,550)	370,667
	2,135,828	177,024	2,312,852
Unquoted debt securities	–	1,205	1,205
Accrued interest receivable	406,547	(5,362)	401,185
Accounts receivable	15,171	–	15,171
Sales contracts receivable	3,438	6,488	9,926
	2,560,984	179,355	2,740,339
	₱2,560,984	₱188,718	₱2,749,702

The adoption of the ECL model did not have a material impact on the Group’s ECL allowance for ‘Due from BSP’, ‘Due from other banks’, and other financial assets included under ‘Loans and receivables’ and ‘Other assets’. It did not also result in a material impact on the Group’s loan commitments and financial guarantee contracts as of January 1, 2018 and December 31, 2018.

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. PFRS 15 also apply to recognizing and measuring gains and losses on disposals of nonfinancial assets (such as items of property and equipment and investment properties), when the disposal is not in the ordinary course of business. The adoption of PFRS 15 did not impact the Group's accounting of revenues from service charges, fees and commissions.

The adoption of the following pronouncements did not have any significant impact on the Group's financial position or performance:
- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

<u>Application of Cost Method of Accounting for Investment Properties and Land</u>
PAS 40, *Investment Property*, allows the use of either fair value model or cost model in accounting for investment property. However, the BSP requires the use of cost method for prudential reporting purposes. In February 2016, the BSP, through its report on examination, directed the Parent Company to change its method of accounting for investment properties from the fair value model to the cost model and restate comparative information in its audited financial statements. On July 17, 2017, the BSP in its Resolution No. 1189, 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.

In April 2018, upon clarification with the BSP, it was confirmed that the directive issued in 2016 to change the accounting treatment to cost model includes land accounted for under the revaluation model. Accordingly, on January 1, 2018, the Group and the Parent Company changed their accounting policy on investment properties and land. Summarized below is the effect of the retrospective treatment of the change in accounting policy on the Group's and the Parent Company's statements of financial position as at December 31, 2017 and January 1, 2017 and the statements of income for the years ended December 31, 2017 and 2016:

Consolidated

	December 31, 2017	January 1, 2017
Statements of financial position		
Increase (decrease) in:		
Investment properties	(₱3,811,899)	(₱3,358,759)
Property and equipment	(364,715)	(356,267)
Deferred tax liabilities	(1,189,421)	(1,072,000)
Deficit	2,685,317	2,362,768
Revaluation increment on land and investment properties	(301,846)	(280,228)
Non-controlling interest	(30)	(30)

	For the year ended December 31	
	2017	2016
Statements of income		
Increase (decrease) in:		
Fair value gain on investment properties	(₱353,992)	(₱286,404)
Profit from assets sold	18,576	15,957
Gain on assets exchange	(81)	19,927
Provision for impairment loss	100	(4,515)
Depreciation and amortization	92,938	69,736
Provision for income tax	(106,293)	(82,826)
Statements of comprehensive income		
Increase (decrease) in revaluation increment on land, office units and condominium properties due to:		
Change in revalued amounts	(21,925)	–
Amortization of revaluation surplus	307	–

Parent Company

	December 31, 2017	January 1, 2017
Statements of financial position		
Increase (decrease) in:		
Investment in subsidiaries	(₱51,044)	(₱34,479)
Investment properties	(3,741,110)	(3,311,632)
Property and equipment	(363,549)	(355,102)
Deferred tax liabilities	(1,168,540)	(1,058,217)
Deficit	2,685,317	2,362,768
Revaluation increment on land and investment properties	(301,846)	(280,228)

	For the year ended December 31	
	2017	2016
Statements of income		
Increase (decrease) in:		
Fair value gain on investment properties	(₱336,859)	(₱252,095)
Profit from assets sold	18,501	12,599
Gain on assets exchange	(81)	19,927
Share in net income of subsidiaries	(16,564)	(24,621)
Provision for impairment losses	100	(4,642)
Depreciation and amortization	88,197	68,998
Provision for income tax	(101,058)	(75,629)
Statements of comprehensive income		
Increase (decrease) in revaluation increment on land, office units and condominium properties due to:		
Change in revalued amounts	(21,925)	–
Amortization of revaluation surplus	307	–

As a result of the change in accounting policy for investment properties and land, the basic/diluted EPS decreased by ₱0.67 and ₱0.48 in 2017 and 2016, respectively.

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 Bankers Association of the Philippines (BAP) closing rate for 2018, and the Philippine Dealing System (PDS) closing rate for 2017 and prior years, prevailing at the statement of financial position date 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 BAP closing rate for 2018 and the PDS closing rate for 2017 and prior years, prevailing at the statement of financial position date, and income and expenses are translated at BAP weighted average rate for 2018 and PDS weighted average rate for 2017 and prior years. 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 and internal 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.

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

<u>Securities Purchased under Resale Agreements (SPURA)</u>
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.

<u>Financial Instruments - Date of Recognition</u>
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'.

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVTOCI, and FVTPL. The classification depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Business model test

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel
- The risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

SPPI test

As a second step of its classification process, the Group assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

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

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

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

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 a business model with the objective 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 SPPI 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 rate (EIR) 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 financial 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, 2018 and 2017, the Group has not made such designation.

b. Financial Assets at FVTOCI
   Financial assets at FVTOCI include debt and equity securities.

   <u>Debt Instruments at FVTOCI *(Applicable beginning January 1, 2018)*</u>
   The Group applies the new category under PFRS 9 of debt instruments measured at FVTOCI when both the following conditions are met:
   - The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
   - The contractual terms of the financial asset meet the SPPI test.

Subsequently, these are measured at fair value with gains or losses arising due to changes in fair value recognized in OCI under 'Unrealized gain on financial assets carried at fair value through other comprehensive income'. Interest income and foreign exchange gains and losses are recognized in the statement of income in the same manner as for financial assets measured at amortized cost. When the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. On derecognition, cumulative gains or losses recognized in OCI are reclassified from OCI to the statement of income.

Equity Instruments at 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.

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 financial assets 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 financial assets carried at fair value through other comprehensive income' is not reclassified to the statement of income, but is reclassified to 'Deficit'.

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 PFRS 9, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income, under 'Miscellaneous income'.

c. Financial Assets at FVTPL
Debt instruments that do not meet the amortized cost or FVTOCI 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, 2018 and 2017, the Group has not designated any debt instrument that meets the amortized cost or FVTOCI criteria as at FVTPL.

Financial assets at FVTPL are carried at fair value, with net changes in fair value 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 BAP closing rate for 2018 and the PDS closing rate for 2017 and prior years at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss.

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 economic 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 or FVTOCI to FVTPL, if the objective of the business model changes so that the amortized cost or FVTOCI criteria are no longer met;
- From FVTPL to amortized cost or FVTOCI, if the objective of the business model changes so that the amortized cost or FVTOCI criteria start to be met and the characteristics of the instrument's contractual cash flows are SPPI; and
- From amortized cost to FVTOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVTOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI 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 reporting period following the change in the business model.

<u>Impairment of Financial Assets (Effective January 1, 2018)</u>
Overview of the ECL principles
ECL represent credit losses that reflect an unbiased and probability-weighted amount which is based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, and the time value of money. The objective of the new impairment model is to record lifetime losses on all financial instruments which have experienced a SICR since their initial recognition. As a result, ECL allowances are now measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the next 12 months after the reporting date. Lifetime ECLs are credit losses that result from all possible default events over the expected life of a financial instrument.

Both the 12-month ECL and lifetime ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the instrument. Based on this process, the Group categorizes its credit exposures into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on the 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a SICR since origination, the Group records an allowance for lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered as credit-impaired. The Group records an allowance for lifetime ECL.

The major portfolios of financial assets identified upon initial analysis of the Group's credit exposures are loan receivables and treasury accounts. Loan receivables are availed by corporations or specific individuals. Hence, this portfolio is further segmented to corporate and consumer portfolios.

Definition of 'default' and 'cure'
<u>Loan receivables</u>
The Group defines a financial instrument as in default based on the following:

- Loans and receivables which are past due for more than 90 days;
- There is a breach of any key covenants/agreements that will adversely affect the borrower's capacity to pay;
- Weak financial condition and results of operations that leads to the borrower's inability to generate sufficient cash flow for debt servicing; or
- Restructuring of principal and interest or any concession granted by the Group relating to the borrower's difficulty.

A financial instrument is considered to be no longer in default (that is, to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

<u>Treasury exposures</u>
Treasury exposures are considered in default upon occurrence of a credit event, such as but not limited to bankruptcy, failure of meeting its obligations to depositors and non-deposit obligations, becoming critically undercapitalized, restructuring of obligations, or request for moratorium.

Credit risk at initial recognition
The Group uses an internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

SICR
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit risk assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of

which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For other credit risk exposures such as cash in banks, interbank loans and receivables, and debt securities at amortized cost and at FVTOCI, the Group applies the low credit risk simplification. The Group considers a debt financial asset to have low risk when its credit rating is equivalent to the definition of investment grade. The Group evaluates whether the debt financial asset, on an individual basis, is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL:

- For corporate loans, an account under Stage 3 may be reverted back to Stage 2 if it shows collection history of at least six consecutive payments. If an account shows collection history of at least 12 consecutive payments, and other qualitative indicators representing substantial increase in credit risk has abated, the account will be further reverted back to Stage 1.
- For consumer loans, an account under Stage 3 may be reverted back to Stage 2 if at least six consecutive payments are received and days past due bucket improves to 31 to 90. If the status of an account further improves to current, it will be reverted back to Stage 1.
- For treasury exposures, the transfer from Stage 3 to Stage 2 must be evident with payments of interest and/or principal for at least six months. The Group shall transfer credit exposures from Stage 2 to Stage 1 if the rating upgrades and the resulting rating falls under investment grade rating bands.

Restructuring
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are moved to Stage 3.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual type of instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its loan-related credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each loan portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio. On the other hand, PD for cash and cash equivalents, interbank loans and receivables, debt securities at amortized cost and debt securities at FVTOCI are assessed on an individual basis using publicly available information.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. Two modelling approaches were employed during EAD estimation. A Balance-Based model for on-balance sheet accounts and a Credit Conversion Factor (CCF)-Based model for off-balance sheet accounts.

LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held. During LGD estimation, the discounted amounts of potential payments and expected recoveries from sale of the collateral are compared to the discounted amounts of corresponding direct expenses related with obtaining and selling of assets.

Economic overlays
The Group incorporates economic overlays into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of economic overlays is considered as economic inputs, such as Gross Domestic Product (GDP) growth rates, crude oil prices, inflation rates, business confidence index, household final consumption expenditure index, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect these, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Debt instruments measured at FVTOCI
The ECLs for debt instruments measured at FVTOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to the statement of income. The accumulated loss recognized in OCI is recycled to the statement of income upon derecognition of the assets.

Collateral valuation
To mitigate its credit risks on financial assets, the Group seeks to use collateral, if possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements. The Group’s accounting policy for collateral assigned to it through its lending arrangements under PFRS 9 is the same as it was under PAS 39. Collateral, unless repossessed, is not recorded on the Group’s statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at the inception and re-assessed annually.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on the data provided by internal and external appraisers.

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

Undrawn loan commitments
Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life.

Impairment of Financial Assets (Prior to January 1, 2018)
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 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.

<u>Classification and Measurement of Financial Liabilities</u>
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 captions ‘Deposit liabilities’, ‘Bills payable’, ‘Outstanding acceptances’, ‘Manager’s checks’, and certain financial liabilities under ‘Accrued interest, taxes and other expenses’ and ‘Other liabilities’ which are not designated at FVTPL.

Financial Guarantees, Letters of Credit and Undrawn Loan Commitments
The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of income, and – under PAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under PFRS 9 – an ECL provision.

The premium received is recognized in the statement of income in ‘Service charges, fees and commissions’ on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under PAS 39, a provision was made if they were an onerous contract but, from January 1, 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. The nominal values of these instruments together with the disclosure on ECLs are disclosed in Note 24.

Derecognition of Financial Assets and Financial Liabilities

Derecognition due to substantial modification of terms and conditions
Effective January 1, 2018, the Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Group considers the following factors:
- Change in the currency of the loan;
- Introduction of an equity feature;
- Change in counterparty; or
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Prior to January 1, 2018, modifications do not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than substantial modification

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 Parent Company's investments in its subsidiaries and an associate and the Group's investment in 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 share in the 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 results of operations 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 or 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 associate are eliminated to the extent of the interest in the subsidiaries and associate. The aggregate of the Group's share in net income (loss) of subsidiaries and associate is shown in the statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries and associate.

If the Parent Company's share of losses in a subsidiary or an associate equals or exceeds its interest in the subsidiary or associate, the Parent Company discontinues recognizing its share in further losses.

The financial statements of the subsidiaries and 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 to 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; and
b. Remeasurement losses or gains on retirement liability.

Property and Equipment

Property and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value, except land, which is carried at cost less impairment in value.

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 the 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.

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 2 to 10 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 reporting 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 include condominium and office units for lease and foreclosed properties in settlement of loan receivables.

Condominium and office units for lease

Condominium and office units for lease are carried at cost, less accumulated depreciation and impairment in value. All costs that are directly attributable to the acquisition and development of property are capitalized, including borrowing costs incurred to finance the property development. Depreciation is computed on a straight-line basis over 25 to 50 years.

Foreclosed properties

Foreclosed properties consist of land, building and improvements.

Land is carried at cost less impairment in value. Building and improvements are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and accumulated impairment losses. Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the carrying values of the foreclosed properties.

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).

The Group applies the cost model in accounting for foreclosed properties. Depreciation is computed on a straight-line basis over the EUL of 10 years for buildings and improvements.

The EUL of investment properties and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The carrying values of the investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the investment property or cash-generating units (CGUs) it is related to are written down to their recoverable amounts.

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.

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 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 interests method. Under the pooling of interests 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 economic useful life of 2 to 5 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 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.

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.

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
Effective January 1, 2018, under PFRS 15, revenue from contracts with customers is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

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

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has generally concluded that it is the principal in its revenue arrangements.

The following specific recognition criteria must be met before revenue is recognized:

Revenue within the scope of PFRS 15

a. 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.

b. Fees and Commissions
   Loan fees that are directly related to the acquisition and origination of loans are included in the initial carrying amount 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.

Revenue outside the scope of PFRS 15

a. Interest Income
   Interest on interest-bearing financial assets at FVTPL are recognized based on contractual rate. Interest on financial instruments measured at amortized cost and debt instruments classified as FVTOCI is recognized based on the EIR method.

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

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

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed under 'Impairment of financial assets (effective January 1, 2018)' above), the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

b. 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 and liabilities at FVTPL.

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

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

<u>Expense Recognition</u>
Expenses are recognized at the same time as the initial recognition of a liability, or an increase in the carrying amount of a liability, or the derecognition of an asset, or a decrease in the carrying amount of an asset. 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 the 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 costs attributable to administrative and other business activities of the Group.

<u>Interest Expense</u>
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 and PRBI 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 the 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.

PRBI 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 and carryforward of unused tax credits from the excess of Minimum Corporate Income Tax (MCIT) over the Regular Corporate Income Tax (RCIT), 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 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 or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. 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, *Guidelines on the Adoption of PFRS 9*;
b. Sales attributable to an anticipated or in reaction to events of systemic proportions that may adversely affect the behavior of customer deposits and/or the Group's creditors. This is particularly important, among others, for securities that are funded principally through repurchase agreements with international banks or foreign currency swaps;
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 the Asset and Liability Committee (ALCO) to bring the asset-liability structure within the BOD's risk appetite and targeted ratios;
e. Sales attributable to a significant decline in the debt instrument's 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 September 2017, the BSP granted the Parent Company an expanded FCDU (EFCDU) license, which will allow the Parent Company to grow its USD-denominated loans without restrictions as to maturity and marketability. Under the regular FCDU license, commercial banks can only generate short-term readily marketable foreign currency loans, which hinders the Parent Company from growing its USD-denominated loans in the FCDU books. With the EFCDU license, the Parent Company revisited its strategy for managing debt securities under the FCDU books. Accordingly, in December 2017, the Parent Company's BOD approved the creation of a new 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. The Parent Company then identified debt securities that should be managed under this business model.

On January 1, 2018, the Bank reclassified the above debt securities with aggregate face amount of ₱1,623.47 million from the hold-to-collect portfolio to the FVTOCI portfolio. The reclassification of these debt securities resulted in recognition of unrealized gain of ₱56.90 million (see Note 10).

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.

Cash flow characteristics test
When the financial assets are held within a business model to collect its contractual cash flows or a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding. The assessment as to whether the cash flows meet the SPPI 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.

<u>Estimates and Assumptions</u>
ECLs on loans and other receivables, investment securities at amortized cost and debt financial assets at FVTOCI (Effective January 1, 2018)
The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered significant accounting judgments and estimates include:
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- The definition of default;
- The Group's internal grading model, which impacts the PDs assigned to the exposures;
- The Group's criteria for assessing if there has been a SICR and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as GDP growth rates, crude oil prices, inflation rates, business confidence index, household final consumption expenditure index, unemployment levels, interest rates and BSP statistical indicators, and the effect on PDs;
- Selection of forward-looking macroeconomic scenario variables; and
- Calculation of expected recoveries from defaulted accounts.

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

Adequacy of allowance for credit losses on loans and receivables (Prior to January 1, 2018)
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.

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. These assumptions include management's expectations on growth of the Group's loans and deposit portfolios and future operating costs and expenses.

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

Impairment of goodwill and branch licenses
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 relevant CGU is insufficient to support its carrying value.

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 5-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 and details of the VIU calculations 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, the Group considers the interest rates of Philippine government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

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

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

The retirement asset and liability as of December 31, 2018 and 2017 are disclosed in Note 27.

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				
	2018				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets at FVTPL:					
Government securities	**₱893,216**	**₱893,216**	**₱318,045**	**₱575,171**	**₱–**
Financial assets at FVTOCI:					
Debt securities:					
Government securities	**4,641,275**	**4,641,275**	**3,396,249**	**1,245,026**	**–**
Private bonds	**2,051,836**	**2,051,836**	**2,051,836**	**–**	**–**
Equity securities	**105,119**	**105,119**	**–**	**74,210**	**30,909**
	7,691,446	**7,691,446**	**5,766,130**	**1,894,407**	**30,909**
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	**13,341,599**	**10,915,596**	**2,751,738**	**8,163,858**	**–**
Loans and receivables:					
Receivables from customers:					
Corporate loans	**44,040,079**	**44,046,526**	**–**	**–**	**44,046,526**
Auto loans	**5,410,223**	**5,376,965**	**–**	**–**	**5,376,965**
Home loans	**5,638,979**	**5,152,065**	**–**	**–**	**5,152,065**
Personal loans	**2,592,860**	**3,090,295**	**–**	**–**	**3,090,295**
Unquoted debt securities	**1,403,428**	**1,755,359**	**–**	**–**	**1,755,359**
	72,427,168	**70,336,806**	**2,751,738**	**8,163,858**	**59,421,210**
Investment properties:					
Condominium units for lease	**1,832,726**	**6,452,358**	**–**	**–**	**6,452,358**
Foreclosed properties	**772,425**	**1,269,312**	**–**	**–**	**1,269,312**
Office units for lease	**3,624**	**54,543**	**–**	**–**	**54,543**
	2,608,775	**7,776,213**	**–**	**–**	**7,776,213**
	₱82,727,389	**₱85,804,465**	**₱8,517,868**	**₱10,058,265**	**₱67,228,332**
Liability measured at fair value					
Currency forwards	**₱726**	**₱726**	**₱–**	**₱726**	**₱–**
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	**43,058,221**	**43,039,801**	**–**	**–**	**43,039,801**
LTNCD	**2,902,730**	**2,948,648**	**–**	**2,948,648**	**–**
Bills payable	**17,659,083**	**17,667,527**	**–**	**–**	**17,667,527**
	63,620,034	**63,655,976**	**–**	**2,948,648**	**60,707,328**
	₱63,620,760	**₱63,656,702**	**₱–**	**₱2,949,374**	**₱60,707,328**

	Consolidated				
	2017 (As restated)				
		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 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
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
Investment properties:					
Condominium units for lease	1,883,696	5,365,080	–	–	5,365,080
Foreclosed properties	736,539	1,020,710	–	–	1,020,710
Office units for lease	3,999	50,343	–	–	50,343
	2,624,234	6,436,133	–	–	6,436,133
	₱73,419,640	₱76,060,994	₱12,899,192	₱3,916,140	₱59,245,662
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

	Parent Company				
	2018				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in Active Market (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets measured at fair value					
Financial assets at FVTPL:					
Government securities	**₱893,216**	**₱893,216**	**₱318,045**	**₱575,171**	**₱–**
Financial assets at FVTOCI:					
Debt securities:					
Government securities	**4,641,275**	**4,641,275**	**3,396,249**	**1,245,026**	**–**
Private bonds	**2,051,836**	**2,051,836**	**2,051,836**	**–**	**–**
Equity securities	**105,119**	**105,119**	**–**	**74,210**	**30,909**
	7,691,446	**7,691,446**	**5,766,130**	**1,894,407**	**30,909**
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	**13,341,599**	**10,915,596**	**2,751,738**	**8,163,858**	**–**
Loans and receivables:					
Receivables from customers:					
Corporate loans	**44,040,079**	**44,046,526**	**–**	**–**	**44,046,526**
Auto loans	**5,410,223**	**5,376,965**	**–**	**–**	**5,376,965**
Home loans	**5,638,979**	**5,152,065**	**–**	**–**	**5,152,065**
Personal loans	**829,531**	**1,185,849**	**–**	**–**	**1,185,849**
Unquoted debt securities	**1,403,428**	**1,755,359**	**–**	**–**	**1,755,359**
	70,663,839	**68,432,360**	**2,751,738**	**8,163,858**	**57,516,764**

(Forward)

	Parent Company				
	2018				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment properties:					
Condominium units for lease	**₱1,832,726**	**₱6,452,358**	**₱–**	**₱–**	**₱6,452,358**
Foreclosed properties:	**612,535**	**1,048,473**	**–**	**–**	**1,048,473**
Office units for lease	**3,624**	**54,543**	**–**	**–**	**54,543**
	2,448,885	**7,555,374**	**–**	**–**	**7,555,374**
	₱80,804,170	**₱83,679,180**	**₱8,517,868**	**₱10,058,265**	**₱65,103,047**
Liability measured at fair value					
Currency forwards	**₱726**	**₱726**	**₱–**	**₱726**	**₱–**
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	**41,907,303**	**41,897,905**	**–**	**–**	**41,897,905**
LTNCD	**2,902,730**	**2,948,648**	**–**	**2,948,648**	**–**
Bills payable	**17,591,284**	**17,596,902**	**–**	**–**	**17,596,902**
	62,401,317	**62,443,455**	**–**	**2,948,648**	**59,494,807**
	₱62,402,043	**₱62,444,181**	**₱–**	**₱2,949,374**	**₱59,494,807**

	Parent Company				
	2017 (As restated)				
		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 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
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	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
Investment properties:					
Condominium units for lease	1,883,696	5,365,080	–	–	5,365,080
Foreclosed properties:	547,825	1,020,710	–	–	1,020,710
Office units for lease	3,999	50,343	–	–	50,343
	2,435,520	6,436,133	–	–	6,436,133
	₱71,557,502	₱77,736,165	₱12,899,192	₱3,916,140	₱60,920,833
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

Movements in the fair value measurement of ‘Financial assets 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 2018 and 2017.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers out of Level 3 fair value measurements in 2018 and 2017.

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.

Equity securities - club shares
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.

Financial Liabilities at Amortized Cost
Deposit liabilities (excluding LTNCD)
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.

LTNCD
Fair values of LTNCD is determined based on the market yield rate of the Bank's LTNCD as provided by the Philippine Dealing and Exchange Corporation (PDEx).

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.

<u>Investment Properties</u>
Fair values of investment properties are determined based on valuations made by professionally qualified appraisers accredited by the BSP and SEC and internal appraisers. 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 valuations 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 are the age and remaining life of the buildings.

On the other hand, the fair values of the condominium and office units for lease were 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 valuation, therefore, is based on the following critical assumptions:
- Rental rates;
- Capitalization rate (income rate), which is based on market rent for similar properties;
- Vacancy rates, which are based on vacancy rates for comparable properties within the area where the Group's properties are located; and
- The floor areas, which are based on the total leasable area.

Significant Unobservable Inputs
Quantitative information about the Group's and the Parent Company's fair value measurements using significant unobservable inputs (Level 3) on unquoted equity securities follows:

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
2018	**₱30,909**	**Guideline publicly-traded company method**	**Price to book ratio**	**0.70:1 - 0.98:1**	**+0.10**	**₱3,821**
					-0.10	**(3,821)**
			Discount for lack of marketability	**30%**	**+10%**	**(4,139)**
					-10%	**4,139**
2017	₱41,594	Guideline publicly-traded company method	Price to book ratio	0.89:1 – 1.25:1	+0.10	₱4,035
					-0.10	(4,035)
			Discount for lack of marketability	30%	+10%	(5,533)
					-10%	5,533

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.

There has been no change in the valuation techniques used from 2017 to 2018.

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 of the Parent Company and PRBI are 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.

a. Parent Company
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.

b. PRBI
Senior Management Team (SMT)
The SMT assists other board committees in fulfilling its oversight responsibilities prior to elevation of concerns to the BOD. The SMT has the authority to conduct or authorize investigations into any matters within its scope of responsibility as follows:
- Monitor the proper execution of management policies;
- Verify with branches all data relevant in its preparation of various proposals;
- Review and subsequently recommend for BOD approval and adoption of all proposals;
- Seek any information it requires from employees who are directed to cooperate with the committee's requests or external parties; and
- Meet with company officers, external auditors, or outside counsel, as necessary.

Compliance Group
Through the Group's Compliance Group, relevant Philippine laws and regulations, as well as pertinent BSP circulars governing the operations of rural banks, are continuously identified for guidelines on implementation. The Compliance Group is also responsible for the systematic and effective communications systems to keep management always conscious of their obligations and legal responsibility as trustee of public funds. It ensures the Group's adherence to the rules and regulations and the provisions of the Manual of Regulations for Banks (MORB) prescribed by the BSP.

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.

<u>Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items</u>
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.

For the corporate loan portfolio, the Group 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 ICRRS shall cover all credit exposures to companies regardless of asset size, except those whose facilities are purely 1:1 which will be given a default Borrower Risk Rating of 1. The system has two components, namely: (a) Borrower Risk Rating (BRR) 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 Group uses a set of Minimum Risk Acceptance Criteria for its consumer loan portfolio as part of its credit undertaking. Risks are mitigated by focusing on the accounts with a low PD while exercising prudent judgement on accounts whose risks are higher than normal but remains within the Group's risk appetite.

The Group also has a post approval 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 Policy and Review Division.

Effective January 1, 2018, the Group transitioned to using PFRS 9 compliant models to meet the requirements of BSP Circular No. 1011, *Guidelines on the Adoption of PFRS 9, Financial Instruments*. These mandated all Philippine banks to adopt a forward looking ECL model approach in measuring credit impairment. In response to this, the Group created quantitative models through statistical, economic, financial and mathematical techniques to calculate credit impairment provisions. Credit risk management and policy and governance over the new ECL models were likewise strengthened.

Credit risk at initial recognition
The Group uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment considers quantitative and qualitative factors and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

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					
	2018			2017		
	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	**₱44,040,079**	**₱26,042,312**	**₱17,997,767**	₱36,948,575	₱30,321,835	₱6,626,740
Consumer loans	**13,642,062**	**4,444,575**	**9,197,487**	12,786,693	5,818,145	6,968,548
Credit exposure	**₱57,682,141**	**₱30,486,887**	**₱27,195,254**	₱49,735,268	₱36,139,980	₱13,595,288

** Net of allowance for credit losses and unearned discount*

	Parent Company					
	2018			2017		
	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	**₱44,040,079**	**₱26,042,312**	**₱17,997,767**	₱36,948,575	₱30,321,835	₱6,626,740
Consumer loans	**11,878,733**	**2,735,618**	**9,143,115**	11,113,269	4,249,071	6,864,198
Credit exposure	**₱55,918,812**	**₱28,777,930**	**₱27,140,882**	₱48,061,844	₱34,570,906	₱13,490,938

** Net of allowance for credit losses and unearned discount*

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									
	2018					2017				
	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total
Government	₱393	₱15,168	₱18,876	₱–	₱34,437	₱1,540	₱15,341	₱16,530	₱–	₱33,411
Wholesale and retail trade	12,069	–	–	541	12,610	11,039	–	–	2,129	13,168
Construction and real estate	14,634	–	246	130	15,010	11,281	–	250	130	11,661
Manufacturing	9,545	–	–	1,149	10,694	8,854	–	–	1,205	10,059
Banks and financial institutions	3,479	643	1,468	–	5,590	4,264	1,701	–	–	5,965
Transportation, storage, communication	3,599	–	–	–	3,599	1,677	–	–	–	1,677
Electricity, gas and water supply	3,485	–	–	5	3,490	4,561	–	–	–	4,561
Agriculture, hunting and forestry	910	–	–	–	910	1,619	–	–	1	1,620
Mining and quarrying	238	–	–	–	238	48	–	–	19	67
Others	14,198	–	345	48	14,591	11,040	–	1,378	61	12,479
	62,550	15,811	20,935	1,873	101,169	55,923	17,042	18,158	3,545	94,668
Less allowance for ECL/credit and impairment losses	2,471	–	7	–	2,478	2,570	–	–	–	2,570
	₱60,079	₱15,811	₱20,928	₱1,873	₱98,691	₱53,353	₱17,042	₱18,158	₱3,545	₱92,098

* *Consist of due from BSP, due from other banks, and interbank loans receivable*
** *Consist of RCOCI, refundable deposits, and commitments and contingencies*

	Parent Company									
	2018					2017				
	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total
Government	₱393	₱15,168	₱18,876	₱–	₱34,437	₱1,540	₱15,279	₱16,530	₱–	₱33,349
Wholesale and retail trade	11,994	–	–	541	12,535	10,974	–	–	2,129	13,103
Construction and real estate	14,634	–	246	130	15,010	11,281	–	250	130	11,661
Manufacturing	9,545	–	–	1,149	10,694	8,854	–	–	1,205	10,059
Banks and financial institutions	3,477	436	1,468	–	5,381	4,264	1,501	–	–	5,765
Transportation, storage, communication	3,599	–	–	–	3,599	1,677	–	–	–	1,677
Electricity, gas and water supply	3,485	–	–	5	3,490	4,561	–	–	–	4,561
Agriculture, hunting and forestry	839	–	–	–	839	1,318	–	–	1	1,319
Mining and quarrying	238	–	–	–	238	48	–	–	19	67
Others	12,459	–	345	46	12,850	9,664	–	1,378	59	11,101
	60,663	15,604	20,935	1,871	99,073	54,181	16,780	18,158	3,543	92,662
Less allowance for ECL/credit and impairment losses	2,442	–	7	–	2,449	2,561	–	–	–	2,561
	₱58,221	₱15,604	₱20,928	₱1,871	₱96,624	₱51,620	₱16,780	₱18,158	₱3,543	₱90,101

* *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, inventories 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 2018 and 2017 and which remain outstanding as of December 31, 2018 amounted to ₱113.02 million and ₱101.26 million, respectively, and as of December 31, 2017 amounted to ₱61.15 million and ₱52.80 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
In compliance with MORB Sec. X178, the Group has developed and continuously reviews and calibrates its internal risk rating system for credit exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. Where appropriate, it obtains security, enters into master netting agreements, and limits the duration of exposures to maintain and even further enhance the quality of the Group's credit exposures.

The credit quality of financial assets is monitored and managed using internal ratings and where available, external ratings.

a. Loans and Receivables
   <u>*Receivables from customers*</u>
   The description and definition of the loan grades or ICRRS used by the Group for corporate loans follow:

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.

BRR Grade	Description	Definition
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.
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	Especially Mentioned	These are loans that have potential weaknesses that deserve management's close attention. If left uncorrected, said weaknesses may affect the repayment of the loan.
12	Substandard	Loans that have well-defined weaknesses that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow, or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
13	Doubtful	Loans that exhibit more sever weaknesses than those under "Substandard", whose characteristics on the basis of currently known facts, conditions, and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet.
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 corporate loans under 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.

The credit quality of the Group's consumer loans under receivables from customers, which is based on the age and status of delinquency of receivables and the credit standing of the counterparties, is grouped as follows:

High Grade
This category is comprised of current receivables with no history of defaults and delayed payments and other financial assets with counterparties that have the apparent ability to satisfy their obligations in full. This rating includes amounts due from the BSP and due from other banks.

Standard Grade
This category is comprised of receivables that are technically past due, with period of default of 1 to 30 days, but are still regarded as good credit quality since the counterparties have the apparent ability to satisfy their obligations in full.

Past Due but not Impaired
These are accounts which are classified as delinquent, with period of default of 31 to 90 days.

Past Due and Impaired
This comprised of receivables and other financial assets whick are classified as non-performing, with period of default of more than 90 days.

Positive and vigorous management action is required to avert or minimize loss.

As of December 31, 2018, the credit quality of receivables from customers, net of unearned discount and capitalized interest follows:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
High grade	₱25,798,350	₱1,645,892	₱–	₱27,444,242
Standard grade	12,973,153	3,534,137	–	16,507,290
Substandard grade	–	194,687	–	194,687
Past due but not impaired	–	324,011	–	324,011
Past due and impaired	–	–	722,756	722,756
	38,771,503	5,698,727	722,756	45,192,986
Consumer loans:				
Auto loans:				
High grade	4,722,044	–	–	4,722,044
Standard grade	436,369	–	–	436,369
Past due but not impaired	–	205,062	–	205,062
Past due and impaired	–	–	402,398	402,398
	5,158,413	205,062	402,398	5,765,873
Home loans:				
High grade	5,032,429	–	–	5,032,429
Standard grade	371,655	–	–	371,655
Past due but not impaired	–	171,067	–	171,067
Past due and impaired	–	–	176,120	176,120
	5,404,084	171,067	176,120	5,751,271
Personal loans:				
High grade	2,417,302	–	–	2,417,302
Standard grade	62,291	–	–	62,291
Past due but not impaired	–	70,110	–	70,110
Past due and impaired	–	–	466,672	466,672
	2,479,593	70,110	466,672	3,016,375

(Forward)

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Total consumer loans:				
High grade	₱12,171,775	₱–	₱–	₱12,171,775
Standard grade	870,315	–	–	870,315
Past due but not impaired	–	446,239	–	446,239
Past due and impaired	–	–	1,045,190	1,045,190
	13,042,090	446,239	1,045,190	14,533,519
Total receivables from customers:				
High grade	37,970,125	1,645,892	–	39,616,017
Standard grade	13,843,468	3,534,137	–	17,377,605
Substandard grade	–	194,687	–	194,687
Past due but not impaired	–	770,250	–	770,250
Past due and impaired	–	–	1,767,946	1,767,946
	₱51,813,593	₱6,144,966	₱1,767,946	₱59,726,505

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
High grade	₱25,798,350	₱1,645,892	₱–	₱27,444,242
Standard grade	12,973,153	3,534,137	–	16,507,290
Substandard grade	–	194,687	–	194,687
Past due but not impaired	–	324,011	–	324,011
Past due and impaired	–	–	722,756	722,756
	38,771,503	5,698,727	722,756	45,192,986
Consumer loans:				
Auto loans				
High grade	4,722,044	–	–	4,722,044
Standard grade	436,369	–	–	436,369
Past due but not impaired	–	205,062	–	205,062
Past due and impaired	–	–	402,398	402,398
	5,158,413	205,062	402,398	5,765,873
Home loans:				
High grade	5,032,429	–	–	5,032,429
Standard grade	371,655	–	–	371,655
Past due but not impaired	–	171,067	–	171,067
Past due and impaired	–	–	176,120	176,120
	5,404,084	171,067	176,120	5,751,271
Personal loans:				
High grade	698,885	–	–	698,885
Standard grade	32,259	–	–	32,259
Past due but not impaired	–	23,357	–	23,357
Past due and impaired	–	–	473,217	473,217
	731,144	23,357	473,217	1,227,718
Total consumer loans:				
High grade	10,453,358	–	–	10,453,358
Standard grade	840,283	–	–	840,283
Past due but not impaired	–	399,486	–	399,486
Past due and impaired	–	–	1,051,735	1,051,735
	11,293,641	399,486	1,051,735	12,744,862
Total receivables from customers:				
High grade	36,251,708	1,645,892	–	37,897,600
Standard grade	13,813,436	3,534,137	–	17,347,573
Substandard grade	–	194,687	–	194,687
Past due but not impaired	–	723,497	–	723,497
Past due and impaired	–	–	1,774,491	1,774,491
	₱50,065,144	₱6,098,213	₱1,774,491	₱57,937,848

Movements during 2018 for receivables from customers follows:

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at January 1, 2018	₱32,558,851	₱4,306,440	₱1,468,771	₱38,334,062
New assets originated or purchased	33,414,147	–	–	33,414,147
Assets derecognized or repaid	(22,946,320)	(3,137,998)	(103,590)	(26,187,908)
Transfers to Stage 1	1,126,622	(1,126,622)	–	–
Transfers to Stage 2	(5,398,566)	5,619,504	(220,938)	–
Transfers to Stage 3	(17,038)	(19,965)	37,003	–
Accounts written-off	–	–	(461,739)	(461,739)
Foreign exchange adjustments	33,807	57,368	3,249	94,424
Balance at December 31, 2018	38,771,503	5,698,727	722,756	45,192,986
Consumer loans:				
Auto loans:				
Balance at January 1, 2018	5,497,587	200,348	299,246	5,997,181
New assets originated or purchased	1,540,289	–	–	1,540,289
Assets derecognized or repaid	(1,578,390)	(108,978)	(84,229)	(1,771,597)
Transfers to Stage 1	74,012	(69,749)	(4,263)	–
Transfers to Stage 2	(229,038)	229,714	(676)	–
Transfers to Stage 3	(146,047)	(46,273)	192,320	–
Balance at December 31, 2018	5,158,413	205,062	402,398	5,765,873
Home loans:				
Balance at January 1, 2018	4,716,554	48,222	32,822	4,797,598
New assets originated or purchased	1,994,994	–	–	1,994,994
Assets derecognized or repaid	(997,468)	(12,057)	(31,796)	(1,041,321)
Transfers to Stage 1	15,986	(9,219)	(6,767)	–
Transfers to Stage 2	(171,129)	171,129	–	–
Transfers to Stage 3	(154,853)	(27,008)	181,861	–
Balance at December 31, 2018	5,404,084	171,067	176,120	5,751,271
Personal loans:				
Balance at January 1, 2018	2,239,193	49,599	459,760	2,748,552
New assets originated or purchased	2,675,052	–	–	2,675,052
Assets derecognized or repaid	(2,243,049)	(22,282)	(47,287)	(2,312,618)
Transfers to Stage 1	7,363	(3,068)	(4,295)	–
Transfers to Stage 2	(75,657)	76,056	(399)	–
Transfers to Stage 3	(123,309)	(30,195)	153,504	–
Accounts written-off	–	–	(94,611)	(94,611)
Balance at December 31, 2018	2,479,593	70,110	466,672	3,016,375
Total consumer loans:				
Balance at January 1, 2018	12,453,334	298,169	791,828	13,543,331
New assets originated or purchased	6,210,335	–	–	6,210,335
Assets derecognized or repaid	(4,818,907)	(143,317)	(163,312)	(5,125,536)
Transfers to Stage 1	97,361	(82,036)	(15,325)	–
Transfers to Stage 2	(475,824)	476,899	(1,075)	–
Transfers to Stage 3	(424,209)	(103,476)	527,685	–
Accounts written-off	–	–	(94,611)	(94,611)
Balance at December 31, 2018	13,042,090	446,239	1,045,190	14,533,519
Total receivables from customers:				
Balance at January 1, 2018	45,012,185	4,604,609	2,260,599	51,877,393
New assets originated or purchased	39,624,482			39,624,482
Assets derecognized or repaid	(27,765,227)	(3,281,315)	(266,902)	(31,313,444)
Transfers to Stage 1	1,223,983	(1,208,658)	(15,325)	–
Transfers to Stage 2	(5,874,390)	6,096,403	(222,013)	–
Transfers to Stage 3	(441,247)	(123,441)	564,688	–
Accounts written-off	–	–	(556,350)	(556,350)
Foreign exchange adjustments	33,807	57,368	3,249	94,424
	₱51,813,593	₱6,144,966	₱1,767,946	₱59,726,505

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at January 1, 2018	₱32,558,851	₱4,306,440	₱1,468,771	₱38,334,062
New assets originated or purchased	33,414,147	–	–	33,414,147
Assets derecognized or repaid	(22,946,320)	(3,137,998)	(103,590)	(26,187,908)
Transfers to Stage 1	1,126,622	(1,126,622)	–	–
Transfers to Stage 2	(5,398,566)	5,619,504	(220,938)	–
Transfers to Stage 3	(17,038)	(19,965)	37,003	–
Accounts written-off	–	–	(461,739)	(461,739)
Foreign exchange adjustments	33,807	57,368	3,249	94,424
Balance at December 31, 2018	38,771,503	5,698,727	722,756	45,192,986
Consumer loans:				
Auto loans:				
Balance at January 1, 2018	5,497,587	200,348	299,246	5,997,181
New assets originated or purchased	1,540,289	–	–	1,540,289
Assets derecognized or repaid	(1,578,390)	(108,978)	(84,229)	(1,771,597)
Transfers to Stage 1	74,012	(69,749)	(4,263)	–
Transfers to Stage 2	(229,038)	229,714	(676)	–
Transfers to Stage 3	(146,047)	(46,273)	192,320	–
Balance at December 31, 2018	5,158,413	205,062	402,398	5,765,873
Home loans:				
Balance at January 1, 2018	4,716,554	48,222	32,822	4,797,598
New assets originated or purchased	1,994,994	–	–	1,994,994
Assets derecognized or repaid	(997,468)	(12,057)	(31,796)	(1,041,321)
Transfers to Stage 1	15,986	(9,219)	(6,767)	–
Transfers to Stage 2	(171,129)	171,129	–	–
Transfers to Stage 3	(154,853)	(27,008)	181,861	–
Balance at December 31, 2018	5,404,084	171,067	176,120	5,751,271
Personal loans:				
Balance at January 1, 2018	601,258	23,265	444,308	1,068,831
New assets originated or purchased	556,735	–	–	556,735
Assets derecognized or repaid	(364,426)	(9,793)	(18,477)	(392,696)
Transfers to Stage 1	6,551	(2,673)	(3,878)	–
Transfers to Stage 2	(29,450)	29,849	(399)	–
Transfers to Stage 3	(39,524)	(17,291)	56,815	–
Accounts written-off	–	–	(5,152)	(5,152)
Balance at December 31, 2018	731,144	23,357	473,217	1,227,718
Total consumer loans:				
Balance at January 1, 2018	10,815,399	271,835	776,376	11,863,610
New assets originated or purchased	4,092,018	–	–	4,092,018
Assets derecognized or repaid	(2,940,284)	(130,828)	(134,502)	(3,205,614)
Transfers to Stage 1	96,549	(81,641)	(14,908)	–
Transfers to Stage 2	(429,617)	430,692	(1,075)	–
Transfers to Stage 3	(340,424)	(90,572)	430,996	–
Accounts written-off	–	–	(5,152)	(5,152)
Balance at December 31, 2018	11,293,641	399,486	1,051,735	12,744,862
Total receivables from customers:				
Balance at January 1, 2018	43,374,250	4,578,275	2,245,147	50,197,672
New assets originated or purchased	37,506,165	–	–	37,506,165
Assets derecognized or repaid	(25,886,604)	(3,268,826)	(238,092)	(29,393,522)
Transfers to Stage 1	1,223,171	(1,208,263)	(14,908)	–
Transfers to Stage 2	(5,828,183)	6,050,196	(222,013)	–
Transfers to Stage 3	(357,462)	(110,537)	467,999	–
Accounts written-off	–	–	(466,891)	(466,891)
Foreign exchange adjustments	33,807	57,368	3,249	94,424
	₱50,065,144	₱6,098,213	₱1,774,491	₱57,937,848

As of December 31, 2018, the credit quality of the Group's and the Parent Company's financial guarantees, letters of credit and loan commitments follows:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
High grade	₱1,831,230	₱–	₱–	₱1,831,230
Standard grade	2,850	–	–	2,850
	₱1,834,080	₱–	₱–	₱1,834,080

Movements during 2018 for the Group's and the Parent Company's financial guarantees, letters of credit and loan commitments follows:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱3,508,000	₱–	₱–	₱3,508,000
Assets derecognized or repaid	(1,673,920)	–	–	(1,673,920)
Balance at December 31	₱1,834,080	₱–	₱–	₱1,834,080

As of December 31, 2018, the credit quality of other receivables, gross of allowance for ECL follows:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
High grade	₱1,404,422	₱–	₱–	₱1,404,422
Accrued interest receivable:				
High grade	385,991	4,497	–	390,488
Standard grade	71,426	27,597	–	99,023
Substandard grade		98	–	98
Past due but not impaired	–	5,411	–	5,411
Past due and impaired	–	–	414,459	414,459
	457,417	37,603	414,459	909,479
Accounts receivable:				
High grade	299,881	–	–	299,881
Standard grade	2,594	–	–	2,594
Past due but not impaired	–	3,906	–	3,906
Past due and impaired	–	–	26,917	26,917
	302,475	3,906	26,917	333,298
Sales contracts receivable:				
High grade	133,850	–	–	133,850
Standard grade	1,780	–	–	1,780
Past due but not impaired	–	17,329	–	17,329
Past due and impaired	–	–	23,429	23,429
	135,630	17,329	23,429	176,388
Total other receivables:				
High grade	2,224,144	4,497	–	2,228,641
Standard grade	75,800	27,597	–	103,397
Substandard grade	–	98	–	98
Past due but not impaired	–	26,646	–	26,646
Past due and impaired	–	–	464,805	464,805
	₱2,299,944	₱58,838	₱464,805	₱2,823,587

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
High grade	₱1,404,422	₱–	₱–	₱1,404,422
Accrued interest receivable:				
High grade	371,237	4,496	–	375,733
Standard grade	70,711	27,597	–	98,308
Substandard grade	–	98	–	98
Past due but not impaired	–	3,929	–	3,929
Past due and impaired	–	–	404,843	404,843
	441,948	36,120	404,843	882,911
Accounts receivable:				
High grade	293,452	–	–	293,452
Past due but not impaired	–	3,776	–	3,776
Past due and impaired	–	–	15,891	15,891
	293,452	3,776	15,891	313,119
Sales contracts receivable:				
High grade	86,111	–	–	86,111
Standard grade	987	–	–	987
Past due but not impaired	–	17,329	–	17,329
Past due and impaired	–	–	20,699	20,699
	87,098	17,329	20,699	125,126
Total other receivables:				
High grade	2,155,222	4,496	–	2,159,718
Standard grade	71,698	27,597	–	99,295
Substandard grade	–	98	–	98
Past due but not impaired	–	25,034	–	25,034
Past due and impaired	–	–	441,433	441,433
	₱2,226,920	₱57,225	₱441,433	₱2,725,578

Movements during 2018 for other receivables follows:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2018	₱2,811,827	₱–	₱–	₱2,811,827
Assets derecognized or repaid	(1,407,405)	–	–	(1,407,405)
Balance at December 31, 2018	1,404,422	–	–	1,404,422
Accrued interest receivable:				
Balance at January 1, 2018	378,077	20,953	415,566	814,596
New assets originated or purchased	362,573	14	32	362,619
Assets derecognized or repaid	(252,621)	(7,239)	(5,106)	(264,966)
Transfers to Stage 1	8,234	(7,923)	(311)	–
Transfers to Stage 2	(33,823)	34,520	(697)	–
Transfers to Stage 3	(5,023)	(2,722)	7,745	–
Accounts written-off	–	–	(2,770)	(2,770)
Balance at December 31, 2018	457,417	37,603	414,459	909,479
Accounts receivable:				
Balance at January 1, 2018	217,954	6,771	26,412	251,137
New assets originated or purchased	8,185,008	–	–	8,185,008
Assets derecognized or repaid	(8,090,581)	(3,060)	(3,257)	(8,096,898)
Transfers to Stage 1	–	–	(3,345)	(3,345)
Transfers to Stage 2	(3,905)	3,905	–	–
Transfers to Stage 3	(6,001)	(3,710)	9,711	–
Accounts written-off	–	–	(2,604)	(2,604)
Balance at December 31, 2018	302,475	3,906	26,917	333,298

(Forward)

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Sales contract receivable:				
Balance at January 1, 2018	₱129,399	₱3,159	₱35,535	₱168,093
New assets originated or purchased	46,038	–	–	46,038
Assets derecognized or repaid	(25,973)	(1,627)	(10,143)	(37,743)
Transfers to Stage 1	4,110	(142)	(3,968)	–
Transfers to Stage 2	(16,853)	16,935	(82)	–
Transfers to Stage 3	(1,091)	(996)	2,087	–
Balance at December 31, 2018	135,630	17,329	23,429	176,388
Total other receivables:				
Balance at January 1, 2018	3,537,257	30,883	477,513	4,045,653
New assets originated or purchased	8,593,619	14	32	8,593,665
Assets derecognized or repaid	(9,776,580)	(11,926)	(18,506)	(9,807,012)
Transfers to Stage 1	12,344	(8,065)	(7,624)	(3,345)
Transfers to Stage 2	(54,581)	55,360	(779)	–
Transfers to Stage 3	(12,115)	(7,428)	19,543	–
Accounts written-off	–	–	(5,374)	(5,374)
	₱2,299,944	₱58,838	₱464,805	₱2,823,587

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2018	₱2,811,827	₱–	₱–	₱2,811,827
Assets derecognized or repaid	(1,407,405)	–	–	(1,407,405)
Balance at December 31, 2018	1,404,422	–	–	1,404,422
Accrued interest receivable:				
Balance at January 1, 2018	353,420	20,272	407,802	781,494
New assets originated or purchased	355,542	–	–	355,542
Assets derecognized or repaid	(239,673)	(6,576)	(5,106)	(251,355)
Transfers to Stage 1	8,221	(7,917)	(304)	–
Transfers to Stage 2	(32,345)	33,042	(697)	–
Transfers to Stage 3	(3,217)	(2,701)	5,918	–
Accounts written-off	–	–	(2,770)	(2,770)
Balance at December 31, 2018	441,948	36,120	404,843	882,911
Accounts receivable:				
Balance at January 1, 2018	213,162	3,463	18,032	234,657
New assets originated or Purchased	8,177,247	–	–	8,177,247
Assets derecognized or repaid	(8,090,014)	(2,984)	(3,183)	(8,096,181)
Transfers to Stage 2	(3,776)	3,776	–	–
Transfers to Stage 3	(3,167)	(479)	3,646	–
Accounts written-off	–	–	(2,604)	(2,604)
Balance at December 31, 2018	293,452	3,776	15,891	313,119
Sales contract receivable:				
Balance at January 1, 2018	129,399	3,159	22,775	155,333
New assets originated or purchased	811	–	–	811
Assets derecognized or repaid	(25,933)	(1,627)	(3,458)	(31,018)
Transfers to Stage 1	765	(142)	(623)	–
Transfers to Stage 2	(16,853)	16,935	(82)	–
Transfers to Stage 3	(1,091)	(996)	2,087	–
Balance at December 31, 2018	87,098	17,329	20,699	125,126
Total other receivables:				
Balance at January 1, 2018	3,507,808	26,894	448,609	3,983,311
New assets originated or purchased	8,533,600	–	–	8,533,600
Assets derecognized or repaid	(9,763,025)	(11,187)	(11,747)	(9,785,959)
Transfers to Stage 1	8,986	(8,059)	(927)	–
Transfers to Stage 2	(52,974)	53,753	(779)	–
Transfers to Stage 3	(7,475)	(4,176)	11,651	–
Accounts written-off	–	–	(5,374)	(5,374)
	₱2,226,920	₱57,225	₱441,433	₱2,725,578

As of December 31, 2018, the credit quality of other financial assets (RCOCI and refundable security deposits) are as follows:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
High grade	₱33,022	₱–	₱–	₱33,022
Standard grade	5,434	–	–	5,434
	₱38,456	₱–	₱–	₱38,456

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
High grade	₱30,877	₱–	₱–	₱30,877
Standard grade	5,434	–	–	5,434
	₱36,311	₱–	₱–	₱36,311

Movements during 2018 for other financial assets follows:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱39,814	₱–	₱–	₱39,814
New assets originated or purchased	11,604	–	–	11,604
Assets derecognized or repaid	(12,962)	–	–	(12,962)
Balance at December 31	₱38,456	₱–	₱–	₱38,456

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱38,210	₱–	₱–	₱38,210
New assets originated or purchased	11,604	–	–	11,604
Assets derecognized or repaid	(13,503)	–	–	(13,503)
Balance at December 31	₱36,311	₱–	₱–	₱36,311

As of December 31, 2017, the credit quality of loans and receivables based on the credit rating system of the Group and the Parent Company follows:

	Consolidated						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
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

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

	Parent Company						
	Neither Past Due nor Impaired						
	High Grade	Standard Grade	Substandard Grade	Unrated	Past Due But Not Impaired	Past Due and Impaired	Total
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

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

As of December 31, 2018 and 2017, restructured loans by the Group which are neither past due nor impaired are as follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Receivables from customers:				
Corporate	**₱52,586**	₱55,229	**₱52,586**	₱55,229
Consumer	**46,910**	33,941	**46,007**	35,211

a. 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.

As of December 31, 2018, the credit quality of loans and advances to banks and investment securities, gross of allowance for ECL follows:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	₱15,224,382	₱–	₱–	₱15,224,382
Due from other banks:				
High grade	240,453	–	–	240,453
Standard grade	137,942	–	–	137,942
Unrated	1,328	–	–	1,328
	379,723	–	–	379,723
Interbank loans receivable:				
High grade	206,965	–	–	206,965
Total loans and advances to banks:				
High grade	15,671,800	–	–	15,671,800
Standard grade	137,942	–	–	137,942
Unrated	1,328	–	–	1,328
	₱15,811,070	₱–	₱–	₱15,811,070
Government securities:				
High grade	₱4,641,275	₱–	₱–	₱4,641,275
Private bonds:				
High grade	339,384	–	–	339,384
Standard grade	1,712,452	–	–	1,712,452
	2,051,836	–	–	2,051,836
Total debt securities at FVTOCI:				
High grade	4,980,659	–	–	4,980,659
Standard grade	1,712,452	–	–	1,712,452
	₱6,693,111	₱–	₱–	₱6,693,111
Government securities:				
High grade	₱13,349,084	₱–	₱–	₱13,349,084
Total investment securities at amortized cost:				
High grade	₱13,349,084	₱–	₱–	₱13,349,084

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	₱15,168,302	₱–	₱–	₱15,168,302
Due from other banks:				
High grade	89,308	–	–	89,308
Standard grade	137,942	–	–	137,942
Unrated	1,328	–	–	1,328
	228,578	–	–	228,578
Interbank loans receivable:				
High grade	206,965	–	–	206,965
Total loans and advances to banks:				
High grade	15,464,575	–	–	15,464,575
Standard grade	137,942	–	–	137,942
Unrated	1,328	–	–	1,328
	₱15,603,845	₱–	₱–	₱15,603,845
Government securities:				
High grade	₱4,641,275	₱–	₱–	₱4,641,275
Private bonds:				
High grade	339,384	–	–	339,384
Standard grade	1,712,452	–	–	1,712,452
	2,051,836	–	–	2,051,836
Total debt securities at FVTOCI:				
High grade	4,980,659	–	–	4,980,659
Standard grade	1,712,452	–	–	1,712,452
	₱6,693,111	₱–	₱–	₱6,693,111
Government securities:				
High grade	₱13,349,084	₱–	₱–	₱13,349,084
Total investment securities at amortized cost:				
High grade	₱13,349,084	₱–	₱–	₱13,349,084

As of December 31, 2017, the credit quality of due from banks, interbank receivables, government securities and corporate investments follows:

	Consolidated						
	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

	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						
	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

	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

Impairment assessment (Beginning January 1, 2018)
As discussed in Note 2, as a result of adoption of PFRS 9, the Group and the Parent Company changed its credit loss methodology and models, replacing PAS 39's incurred loss approach with a forward-looking ECL approach.

Impairment assessment (Prior to January 1, 2018)
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 PD and the 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

As of December 31, 2017, the aging analysis of past due but not impaired financial assets are shown below:

	Consolidated					
	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

	Parent Company					
	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

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						
	2018						
	Net	**Risk Weights[(b)]**					
	Exposures[(a)]	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**
On-balance sheet assets[(c)]	**₱103,758**	**₱30,336**	**₱74**	**₱7,032**	**₱52**	**₱64,676**	**₱1,588**
Credit risk weighted on-balance sheet assets (d = b x c)	**70,628**	**–**	**15**	**3,516**	**39**	**64,676**	**2,382**
Off-balance sheet assets[(e)]	**8,649**	**6,784**	**1,348**	**–**	**–**	**517**	**–**
Credit risk weighted off-balance sheet assets (f = b x e)	**787**	**–**	**270**	**–**	**–**	**517**	**–**
Banking Book[(g)]	**1,434**	**–**	**–**	**–**	**–**	**1,434**	**–**
Counter party risk-weighted assets in Banking Books (h = b x g)	**1,434**	**–**	**–**	**–**	**–**	**1,434**	**–**
Total Credit Risk Weighted Assets[(d + f + h)]	**₱72,849**	**₱–**	**₱284**	**₱3,516**	**₱39**	**₱66,627**	**₱2,382**

(a) *Net of specific provisions*

	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*

	Parent Company						
	2018						
	Net	**Risk Weights[b]**					
	Exposures[a]	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**
On-balance sheet assets[c]	**₱101,481**	**₱30,255**	**₱68**	**₱7,032**	**₱–**	**₱62,672**	**₱1,454**
Credit risk weighted on-balance sheet assets (d = b x c)	**68,383**	**–**	**14**	**3,516**	**–**	**62,672**	**2,181**
Off-balance sheet assets[e]	**8,649**	**6,784**	**1,348**	**–**	**–**	**517**	**–**
Credit risk weighted off-balance sheet assets (f = b x e)	**787**	**–**	**270**	**–**	**–**	**517**	**–**
Banking Book[g]	**1,434**	**–**	**–**	**–**	**–**	**1,434**	**–**
Counter party risk-weighted assets in Banking Books (h = b x g)	**1,434**	**–**	**–**	**–**	**–**	**1,434**	**–**
Total Credit Risk Weighted Assets[d + f + h]	**₱70,604**	**₱–**	**₱284**	**₱3,516**	**₱–**	**₱64,623**	**₱2,181**

(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

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 weekly 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 until February 28, 2018. Effective on March 2 and June 1, 2018, the reserve requirement with the BSP is equal to 19.00% and 18.00%, respectively, 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, 2018 and 2017, 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					
	2018					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Financial assets						
Financial assets at FVTPL	**₱–**	**₱893**	**₱–**	**₱–**	**₱–**	**₱893**
Financial assets at FVTOCI	**–**	**92**	**202**	**331**	**7,629**	**8,254**
Investment securities at amortized cost:						
Government securities	**–**	**194**	**490**	**1,131**	**17,445**	**19,260**
Loans and receivables:						
Due from BSP	**15,224**	**–**	**–**	**–**	**–**	**15,224**
Due from other banks	**177**	**229**	**–**	**–**	**–**	**406**
Interbank loans receivable	**–**	**207**	**–**	**–**	**–**	**207**
Receivables from customers:						
Corporate	**1,361**	**19,556**	**7,923**	**2,078**	**21,629**	**52,547**
Consumer	**1,799**	**909**	**2,294**	**3,256**	**12,611**	**20,869**
	₱18,561	**₱22,080**	**₱10,909**	**₱6,796**	**₱59,314**	**₱117,660**
Financial liabilities						
Deposit liabilities:						
Demand	**₱20,257**	**₱–**	**₱–**	**₱–**	**₱–**	**₱20,257**
Savings	**8,347**	**–**	**–**	**–**	**–**	**8,347**
Time	**–**	**35,971**	**4,242**	**1,946**	**1,230**	**43,389**
LTNCD	**–**	**40**	**123**	**164**	**3,437**	**3,764**
Bills payable:						
Private firms and individuals	**–**	**11,750**	**37**	**–**	**–**	**11,787**
Banks and other financial institutions	**–**	**5,498**	**26**	**417**	**–**	**5,941**
Outstanding acceptances	**46**	**–**	**–**	**–**	**–**	**46**
Manager's checks	**97**	**–**	**–**	**–**	**–**	**97**

(Forward)

	Consolidated					
	2018					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Accrued interest payable	**₱1**	**₱265**	**₱5**	**₱–**	**₱–**	**₱271**
Accrued other expenses	**21**	**314**	**–**	**–**	**–**	**335**
Other liabilities:						
Accounts payable	**248**	**–**	**–**	**–**	**–**	**248**
Refundable security deposits	**–**	**7**	**29**	**–**	**142**	**178**
Due to the Treasurer of the Philippines	**1**	**31**	**–**	**–**	**–**	**32**
	₱29,018	**₱53,876**	**₱4,462**	**₱2,527**	**₱4,809**	**₱94,692**

Including non-performing loans and receivables

	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

	Parent Company					
	2018					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Financial assets						
Financial assets at FVTPL	**₱–**	**₱893**	**₱–**	**₱–**	**₱–**	**₱893**
Financial assets at FVTOCI	**–**	**92**	**202**	**331**	**7,629**	**8,254**
Investment securities at amortized cost:						
Government securities	**–**	**194**	**490**	**1,131**	**17,445**	**19,260**
Loans and receivables:						
Due from BSP	**15,168**	**–**	**–**	**–**	**–**	**15,168**
Due from other banks	**–**	**229**	**–**	**–**	**–**	**229**

(Forward)

	Parent Company					
	2018					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Interbank loans receivable	**₱–**	**₱207**	**₱–**	**₱–**	**₱–**	**₱207**
Receivables from customers:						
Corporate	**1,361**	**19,556**	**7,923**	**2,078**	**21,629**	**52,547**
Consumer	**1,534**	**660**	**1,496**	**1,942**	**12,611**	**18,243**
	₱18,063	**₱21,831**	**₱10,111**	**₱5,482**	**₱59,314**	**₱114,801**
Financial liabilities						
Deposit liabilities:						
Demand	**₱20,263**	**₱–**	**₱–**	**₱–**	**₱–**	**₱20,263**
Savings	**7,791**	**–**	**–**	**–**	**–**	**7,791**
Time	**–**	**35,386**	**3,863**	**1,713**	**1,230**	**42,192**
LTNCD	**–**	**40**	**123**	**164**	**3,437**	**3,764**
Bills payable:						
Private firms and individuals	**–**	**11,750**	**37**	**–**	**–**	**11,787**
Banks and other financial institutions	**–**	**5,490**	**12**	**365**	**–**	**5,867**
Outstanding acceptances	**46**	**–**	**–**	**–**	**–**	**46**
Manager's checks	**97**	**–**	**–**	**–**	**–**	**97**
Accrued interest payable	**–**	**253**	**–**	**–**	**–**	**253**
Accrued other expenses	**–**	**314**	**–**	**–**	**–**	**314**
Other liabilities:						
Accounts payable	**232**	**–**	**–**	**–**	**–**	**232**
Refundable security deposits	**–**	**7**	**29**	**–**	**142**	**178**
Due to the Treasurer of the Philippines	**–**	**31**	**–**	**–**	**–**	**31**
	₱28,429	**₱53,271**	**₱4,064**	**₱2,242**	**₱4,809**	**₱92,815**

**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
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

(Forward)

	Parent Company					
	2017					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
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*

The tables below show the contractual expiry of the Group's and the Parent Company's commitments and contingent liabilities as of December 31, 2018 and 2017 (amounts in millions):

	2018				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Beyond 1 Year**	**Total**
Unused Commercial LC:					
Standby LC	**₱107**	**₱115**	**₱295**	**₱–**	**₱517**
Sight LC outstanding	**131**	**519**	**4**	**–**	**654**
Usance LC outstanding	**21**	**107**	**–**	**–**	**128**
Outstanding shipping guarantees	**75**	**6**	**454**	**–**	**535**
	₱334	**₱747**	**₱753**	**₱–**	**₱1,834**

	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	₱–	₱84	₱3,508

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 Risk and Capital Oversight Division 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 2018 (in ₱ millions)	USD Bonds from January to December 2017 (in ₱ millions)
31 December	**6.98**	20.74
Average Daily	**5.18**	14.58
Highest	**21.23**	46.77
Lowest	**.60**	1.11

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 2018 (in ₱ millions)	Peso Bonds 2017 (in ₱ millions)
31 December	**9.21**	35.66
Average Daily	**7.67**	36.08
Highest	**37.35**	116.85
Lowest	**0.00**	0.00

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 & Trust 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.

As of December 31, 2018 and 2017, 48.49% and 51.27%, 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 27.36% and 27.43%, respectively, of total deposits of the Group as of December 31, 2018 and 2017, respectively, and pays a variable interest rate of 0.10% to 0.50% and fixed rate of 0.10%, respectively. Rates on savings accounts and time deposit accounts, which constituted 10.55% and 58.16%, respectively, of total deposits as of December 31, 2018 and 11.78% and 60.80%, respectively, of total deposits as of December 31, 2017, 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, 2018 and 2017:

	Consolidated					
	2018			2017		
	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	**0.72%**	**–**	**–**	0.69%	–	–
Interbank loans	**–**	**–**	**–**	0.65%	0.60%	–
Loans and receivables	**24.68%**	**21.48%**	**16.01%**	19.41%	22.93%	17.19%
Peso-denominated liabilities						
Deposit liabilities	**0.58%**	**2.77%**	**4.23%**	0.61%	2.28%	4.78%
Bills payable	**5.42%**	**6.13%**	**5.24%**	2.10%	2.24%	–
Foreign currency-denominated assets						
Due from banks	**1.78%**	**–**	**–**	0.22%	–	–
Interbank loans	**0.75%**	**–**	**–**	0.70%	–	–
Loans and receivables	**4.54%**	**3.42%**	**5.98%**	3.55%	5.94%	5.27%
Foreign currency-denominated liability						
Deposit liabilities	**0.91%**	**1.36%**	**2.39%**	0.65%	1.29%	2.38%

	Parent Company					
	2018			2017		
	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	**0.15%**	**–**	**–**	0.12%	–	–
Interbank loans	**–**	**–**	**–**	0.65%	0.60%	–
Loans and receivables	**20.89%**	**18.26%**	**18.79%**	18.86%	20.54%	19.21%
Peso-denominated liabilities						
Deposit liabilities	**0.41%**	**3.08%**	**3.38%**	0.25%	2.46%	3.28%
Bills payable	**4.74%**	**4.65%**	**4.50%**	2.14%	2.33%	–
Foreign currency-denominated assets	**1.78%**	**–**	**–**	0.22%	–	–
Due from banks	**0.75%**	**–**	**–**	0.70%	–	–
Interbank loans	**4.54%**	**3.42%**	**5.98%**	3.55%	5.94%	5.27%
Foreign currency-denominated liability						
Deposit liabilities	**0.91%**	**1.36%**	**2.39%**	0.65%	1.29%	2.38%

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, 2018 and 2017 (amounts in millions):

	Consolidated					
	2018					
	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	**₱380**	**₱–**	**₱–**	**₱–**	**₱–**	**₱380**
Interbank loans receivable	**207**	**–**	**–**	**–**	**–**	**207**
Financial assets at FVTPL	**–**	**–**	**–**	**–**	**893**	**893**
Financial assets at FVTOCI	**–**	**–**	**–**	**245**	**6,448**	**6,693**
Investment securities at amortized cost	**–**	**–**	**–**	**251**	**13,091**	**13,342**
Loans and receivables	**9,517**	**11,981**	**7,610**	**1,599**	**29,372**	**60,079**
	10,104	**11,981**	**7,610**	**2,095**	**49,804**	**81,594**
Liabilities						
Deposit liabilities	**61,964**	**1,431**	**4,160**	**1,780**	**4,694**	**74,029**
Bills payable	**15,455**	**2,107**	**51**	**29**	**17**	**17,659**
	77,419	**3,538**	**4,211**	**1,809**	**4,711**	**91,688**
Asset-liability gap	**(₱67,315)**	**₱8,443**	**₱3,399**	**₱286**	**₱45,093**	**(₱10,094)**

	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)

	Parent Company 2018 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	**₱229**	**₱–**	**₱–**	**₱–**	**₱–**	**₱229**
Interbank loans receivable	**207**	**–**	**–**	**–**	**–**	**207**
Financial assets at FVTPL	**–**	**–**	**–**	**–**	**893**	**893**
Financial assets at FVTOCI	**–**	**–**	**–**	**245**	**6,448**	**6,693**
Investment securities at amortized cost	**–**	**–**	**–**	**251**	**13,091**	**13,342**
Loans and receivables	**9,244**	**11,949**	**7,437**	**1,599**	**27,992**	**58,221**
	9,680	**11,949**	**7,437**	**2,095**	**48,424**	**79,585**
Liabilities						
Deposit liabilities	**61,878**	**974**	**3,761**	**1,655**	**4,067**	**72,335**
Bills payable	**15,447**	**2,107**	**37**	**–**	**–**	**17,591**
	77,325	**3,081**	**3,798**	**1,655**	**4,067**	**89,926**
Asset-liability gap	**(₱67,645)**	**₱8,868**	**₱3,639**	**₱440**	**₱44,357**	**(₱10,341)**

	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)

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):

	2018 Changes in Interest Rates (in Basis Points)			
Changes in interest rates (in basis points)	**+50**	**-50**	**+100**	**-100**
Change in annualized net interest income	**(₱6.72)**	**₱6.72**	**(₱13.44)**	**₱13.44**

	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

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	**2018**	2017
Interest rate exposures	**₱325,492**	₱663,226
Foreign exchange exposures	**58,634**	104,679
	₱384,126	₱767,905

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.

Effective January 1, 2018, the liquid asset cover requirements for FCDU and EFCDU liabilities shall be as follows: (a) for universal and commercial banks, 0.00% liquid asset cover, and (b) for thrift, rural and cooperative banks, 30.00% liquid asset cover. Further, beginning on January 1, 2018, the liquid asset cover requirement for FCDU and EFCDU liabilities for all banks shall be 0.00%. FCDUs and EFCDUs of universal banks and commercial banks may maintain its foreign currency cover in any foreign currency acceptable with the BSP. However, FCDUs and EFCDUs of thrift banks and rural banks are required to maintain foreign currency cover in the same currency as that of the corresponding foreign currency deposit liability until December 31, 2018. Beginning January 1, 2018, FCDUs and EFCDUs of thrift banks and rural banks may maintain its foreign currency cover in any foreign currency acceptable with the BSP. FCDUs and EFCDUs of universal banks, commercial banks, and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.00% of their foreign currency deposit liabilities as a form of foreign currency cover. The Parent Company adopts this regulation as prescribed by BSP and addresses this on an ongoing basis. As reported to the BSP, the Parent Company is in compliance with said regulation as of December 31, 2018.

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 the Parent Company's exposure to foreign exchange risk as of December 31, 2018 and 2017. 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):

	2018			2017		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
Cash on hand	**₱2,985**	**₱174**	**₱3,159**	₱2,415	₱175	₱2,590
Due from other banks	**6,175**	**1,973**	**8,148**	74,248	63,682	137,930
Interbank loans receivable	**79,404**	**–**	**79,404**	62,413	–	62,413
Financial assets at amortized cost	**–**	**239,646**	**239,646**	–	240,063	240,063
Loans and receivables:						
Corporate loans	**98,018**	**3,300**	**101,318**	213,091	16,584	229,675
Accrued interest receivable	**191**	**3,474**	**3,665**	263	3,519	3,782
Other assets	**80**	**130**	**210**	76	129	205
	186,853	**248,697**	**435,550**	352,506	324,152	676,658
Liabilities						
Deposit liabilities	**–**	**33,580**	**33,580**	–	235,638	235,638
Outstanding acceptances	**43,044**	**3,300**	**46,344**	56,417	7,669	64,086
Other liabilities:						
Others	**39**	**6,331**	**6,370**	2,499	1	2,500
	43,083	**43,211**	**86,294**	58,916	243,308	302,224
Net exposure	**₱143,770**	**₱205,486**	**₱349,256**	₱293,590	₱80,844	₱374,434

**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, while a positive amount reflects a potential net increase.

	2018			
	Changes in Foreign Exchange Rates			
Changes in foreign exchange rates	**+3.00%**	**-3.00%**	**+4.00%**	**-4.00%**
Change in annualized net income	**₱1,704**	**(₱1,704)**	**₱2,272**	**(₱2,272)**

	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)

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 as reported to the BSP (amounts in millions):

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Average Gross Income (Previous 3 Years)	**₱3,659**	₱3,354	**₱3,349**	₱3,121
Capital Charge (Average Gross Income times 18.75%[(a)])	**686**	629	**628**	585
Risk Weighted Asset (Capital Charge times 10)	**₱6,861**	₱6,289	**₱6,279**	₱5,851

(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 – handles the individual customers' deposits, and provides overdrafts and fund transfer facilities;

Corporate Banking Group – 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 – provides the retail client's credit requirements for the purchase of auto, home and personal loan requirements; and

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

Segment's resources, both assets and liability are those operating resources that are employed by a segment in its operating activities and that are 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 2018, 2017 and 2016.

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, 2018, 2017 and 2016:

	Consolidated								
	2018								
	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	**(₱982,678)**	**₱2,500,468**	**₱241,816**	**₱1,258,808**	**₱1,832**	**(₱26,656)**	**₱2,993,590**	**₱120,797**	**₱3,114,387**
Intersegment	**2,238,227**	**(1,789,558)**	**(194,079)**	**(565,253)**	**(3,066)**	**313,729**	**–**	**–**	**–**
Other operating income	**116,687**	**228,565**	**12,829**	**155,487**	**15,707**	**753,191**	**1,282,466**	**13,474**	**1,295,940**
Total operating income	**1,372,236**	**939,475**	**60,566**	**849,042**	**14,473**	**1,040,264**	**4,276,056**	**134,271**	**4,410,327**
Compensation and fringe benefits	**298,086**	**73,989**	**40,098**	**227,851**	**10,071**	**504,036**	**1,154,131**	**(747)**	**1,153,384**
Taxes and licenses	**216,090**	**131,051**	**87,973**	**88,822**	**1,005**	**45,702**	**570,643**	**4,894**	**575,537**
Depreciation and amortization	**100,512**	**3,296**	**1,530**	**24,395**	**640**	**319,030**	**449,403**	**(45,050)**	**404,353**
Provision for (reversal of) credit and impairment losses	**–**	**166,914**	**–**	**199,457**	**–**	**(3,040)**	**363,331**	**(95,595)**	**267,736**
Occupancy and other equipment-related costs	**173,828**	**22,645**	**886**	**31,397**	**1,763**	**29,920**	**260,439**	**78**	**260,517**
Other operating expenses	**295,773**	**51,795**	**57,671**	**131,755**	**2,981**	**358,069**	**898,044**	**(3,209)**	**894,835**
Net operating income (loss) before income tax	**₱287,947**	**₱489,785**	**(₱127,592)**	**₱145,365**	**(₱1,987)**	**(₱213,453)**	**₱580,065**	**₱273,900**	**₱853,965**
Segment results									
Net interest income (loss)	**₱1,255,550**	**₱710,911**	**₱24,665**	**₱693,554**	**(₱1,234)**	**₱287,073**	**₱2,970,519**	**₱143,868**	**₱3,114,387**
Rent income	**–**	**–**	**–**	**–**	**–**	**661,017**	**661,017**	**–**	**661,017**
Service charges, fees, and commissions	**81,845**	**206,380**	**3**	**90,680**	**–**	**4,161**	**383,069**	**13**	**383,082**
Foreign exchange gain - net	**13,125**	**9,521**	**27,307**	**–**	**–**	**–**	**49,953**	**–**	**49,953**
Trading and securities gain - net	**–**	**–**	**23,072**	**–**	**–**	**–**	**23,072**	**264**	**23,336**
Gain on assets exchange - net	**–**	**–**	**–**	**2,799**	**–**	**–**	**2,799**	**20,313**	**23,112**
Income from trust operations	**–**	**–**	**–**	**–**	**15,707**	**–**	**15,707**	**–**	**15,707**
Profit (loss) from assets sold	**–**	**–**	**–**	**54,865**	**–**	**(7,518)**	**47,347**	**(34,584)**	**12,763**
Miscellaneous	**21,716**	**12,663**	**(14,481)**	**7,144**	**–**	**95,531**	**122,573**	**4,397**	**126,970**
Total operating income	**1,372,236**	**939,475**	**60,566**	**849,042**	**14,473**	**1,040,264**	**4,276,056**	**134,271**	**4,410,327**
Compensation and fringe benefits	**298,086**	**73,989**	**40,098**	**227,851**	**10,071**	**504,036**	**1,154,131**	**(747)**	**1,153,384**
Taxes and licenses	**216,090**	**131,051**	**87,973**	**88,822**	**1,005**	**45,702**	**570,643**	**4,894**	**575,537**
Depreciation and amortization	**100,512**	**3,296**	**1,530**	**24,395**	**640**	**319,030**	**449,403**	**(45,050)**	**404,353**
Provision for (reversal of) credit and impairment losses	**–**	**166,914**	**–**	**199,457**	**–**	**(3,040)**	**363,331**	**(95,595)**	**267,736**
Occupancy and other equipment-related costs	**173,828**	**22,645**	**886**	**31,397**	**1,763**	**29,920**	**260,439**	**78**	**260,517**
Other operating expenses	**295,773**	**51,795**	**57,671**	**131,755**	**2,981**	**358,069**	**898,044**	**(3,209)**	**894,835**
Total operating expenses	**1,084,289**	**449,690**	**188,158**	**703,677**	**16,460**	**1,253,717**	**3,695,991**	**(139,629)**	**3,556,362**
Segment profit (loss)	**287,947**	**489,785**	**(127,592)**	**145,365**	**(1,987)**	**(213,453)**	**580,065**	**273,900**	**853,965**
Provision for income tax	**–**	**(7,671)**	**(139,846)**	**(7,027)**	**–**	**(82,991)**	**(237,535)**	**9,806**	**(227,729)**
Non-controlling interests in net income of subsidiaries	**–**	**–**	**–**	**(4)**	**–**	**–**	**(4)**	**1**	**(3)**
Net income (loss)	**₱287,947**	**₱482,114**	**(₱267,438)**	**₱138,334**	**(₱1,987)**	**(₱296,444)**	**₱342,526**	**₱283,707**	**₱626,233**
Segment assets									
Property and equipment	**₱368,664**	**₱–**	**₱–**	**₱79,738**	**₱–**	**₱1,176,633**	**₱1,625,035**	**(₱603,686)**	**₱1,021,349**
Investment properties	**–**	**–**	**–**	**68,370**	**–**	**3,615,524**	**3,683,894**	**(1,075,119)**	**2,608,775**
Unallocated assets	**10,365,171**	**44,666,299**	**28,717,292**	**13,978,779**	**60,497**	**3,873,078**	**101,661,116**	**(1,541,918)**	**100,119,198**
Total segment assets	**₱10,733,835**	**₱44,666,299**	**₱28,717,292**	**₱14,126,887**	**₱60,497**	**₱8,665,235**	**₱106,970,045**	**(₱3,220,723)**	**₱103,749,322**
Total segment liabilities	**₱61,704,297**	**₱2,686,242**	**₱22,978,260**	**₱1,863,489**	**₱–**	**₱5,100,855**	**₱94,333,143**	**(₱909,735)**	**₱93,423,408**

	Consolidated								
	2017 (As restated)								
	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	(₱234,968)	₱2,901,558
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	348,060	1,155,742
Total operating income	919,551	1,017,357	210,966	854,915	14,875	926,544	3,944,208	113,092	4,057,300
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
Depreciation and amortization	114,424	3,552	1,912	26,723	694	313,424	460,729	(40,876)	419,853
Provision for (reversal of) credit and impairment losses	(7,629)	164,017	–	214,962	–	(69,372)	301,978	36,617	338,595
Occupancy and other equipment-related costs	159,610	21,920	816	28,522	1,772	11,739	224,379	(28)	224,351
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	₱118,397	₱612,806
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
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
Trading and securities gain (loss) - net	–	–	(14,569)	–	–	–	(14,569)	1,326	(13,243)
Profit (loss) from assets sold	–	–	–	6,604	–	15,935	22,539	7,990	30,529
Income from trust operations	–	–	–	–	15,404	–	15,404	–	15,404
Gain on assets exchange	–	–	–	–	–	–	–	5,406	5,406
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	113,092	4,057,300
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
Depreciation and amortization	114,424	3,552	1,912	26,723	694	313,424	460,729	(40,876)	419,853
Provision for (reversal of) credit and impairment losses	(7,629)	164,017	–	214,962	–	(69,372)	301,978	36,617	338,595
Occupancy and other equipment-related costs	159,610	21,920	816	28,522	1,772	11,739	224,379	(28)	224,351
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	(5,305)	3,444,494
Segment profit (loss)	(71,367)	600,911	21,741	142,178	(1,476)	(197,578)	494,409	118,397	612,806
Provision for income tax	–	(8,918)	(130,098)	(11,945)	–	(57,673)	(208,634)	(7,713)	(216,347)
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	₱111,239	₱396,456
Segment assets									
Property and equipment	₱445,005	₱–	₱–	₱62,725	₱–	₱1,220,945	₱1,728,675	(₱619,802)	₱1,108,873
Investment properties	–	–	–	72,857	–	3,175,210	3,248,067	(623,833)	2,624,234
Unallocated assets	11,505,907	39,065,373	25,621,908	13,816,110	70,712	4,089,296	94,169,306	(2,858,763)	91,310,543
Total segment assets	₱11,950,912	₱39,065,373	₱25,621,908	₱13,951,692	₱70,712	₱8,485,451	₱99,146,048	(₱4,102,398)	₱95,043,650
Total segment liabilities	₱60,927,417	₱4,108,878	₱16,782,805	₱1,870,225	₱–	₱2,461,322	₱86,150,647	(₱1,050,168)	₱85,100,479

	Consolidated								
	2016 (As restated)								
	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	(₱570,495)	₱2,595,954
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	606,683	1,205,297
Total operating income	658,482	888,810	288,424	1,033,110	16,195	880,042	3,765,063	36,188	3,801,251
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
Depreciation and amortization	134,990	3,102	2,154	45,003	1,347	275,905	462,501	(47,187)	415,314
Provision for credit and impairment losses	–	112,639	–	215,583	–	2,159	330,381	143,073	473,454
Occupancy and other equipment-related costs	174,420	8,439	835	25,768	1,108	(23,917)	186,653	(2,241)	184,412
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	₱4,510	₱318,959
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
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
Gain on assets exchange	–	–	–	–	–	–	–	32,097	32,097
Trading and securities gain (loss) - net	–	–	44,774	–	–	201,571	246,345	(198,006)	48,339
Profit (loss) from assets sold	–	–	–	1,765	–	25,982	27,747	(19,106)	8,641
Income from trust operations	–	–	–	–	16,864	–	16,864	–	16,864
Gain on reclassification of investment securities from amortized cost to FVTPL	–	–	–	–	–	–	–	198,700	198,700
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	36,188	3,801,251
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
Depreciation and amortization	134,990	3,102	2,154	45,003	1,347	275,905	462,501	(47,187)	415,314
Provision for credit and impairment losses	–	112,639	–	215,583	–	2,159	330,381	143,073	473,454
Occupancy and other equipment-related costs	174,420	8,439	835	25,768	1,108	(23,917)	186,653	(2,241)	184,412
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	31,678	3,482,292
Segment profit (loss)	(332,054)	541,131	92,299	266,883	(1,800)	(252,010)	314,449	4,510	318,959
Provision for income tax	–	(1,479)	(139,681)	(32,107)	–	(45,075)	(218,342)	66,347	(151,995)
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	₱70,868	₱167,136
Segment assets									
Property and equipment	₱542,402	₱–	₱–	₱113,287	₱–	₱1,314,184	₱1,969,873	(₱677,096)	₱1,292,777
Investment properties	–	–	–	64,255	–	3,707,050	3,771,305	(1,104,654)	2,666,651
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	(₱3,415,877)	₱82,783,707
Total segment liabilities	₱50,140,014	₱34,518	₱21,569,914	₱–	₱–	₱2,174,145	₱73,918,591	₱726,406	₱74,644,997

Net operating income after tax reported to the BOD, which is based on RAP, amounted to ₱342.53 million, ₱285.22 million and ₱96.27 million in 2018, 2017 and 2016, 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 ₱0.25 million in 2018, ₱0.69 million in 2017 and ₱0.26 million in 2016 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		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017 (As restated)	2016 (As Restated)
Subsidiaries:									
Cost:									
PRBI	**99.99**	99.99	99.99	**₱–**	₱–	₱–	**₱918,296**	₱918,296	₱520,552
RBNI (merged with PRBI in 2017)	**–**	–	96.32	**–**	–	–	**–**	–	393,297
PISAI	**100.00**	100.00	100.00	**–**	–	–	**10,000**	10,000	10,000
				–	–	–	**928,296**	928,296	923,849
Accumulated share in net income									
Balance at January 1, as previously reported				**–**	–	–	**141,335**	114,117	64,434
Effect of change in accounting policy for investment properties and land (Note 2)				**–**	–	–	**(51,044)**	(34,479)	(9,860)
Balance at January 1, as restated				**–**	–	–	**90,291**	79,638	54,574
Effect of the adoption of PFRS 9 (Note 2)				**–**	–	–	**(42,175)**	–	–
Balance at January 1				**–**	–	–	**48,116**	79,638	54,574
Share in net income				**–**	–	–	**22,981**	10,649	25,064
Balance at December 31				**–**	–	–	**71,097**	90,287	79,638
Accumulated share in OCI									
Balance at January 1				**–**	–	–	**446**	(1,941)	(1,232)
Share in change in remeasurement gains (losses) on defined benefit liability, net of tax				**–**	–	–	**2,136**	2,387	(709)
Balance at December 31				**–**	–	–	**2,582**	446	(1,941)
Accumulated dividends received				**–**	–	–			
Balance at January 1				**–**	–	–	**(25,067)**	(25,067)	–
Dividends received				**–**	–	–	**–**	–	(25,067)
Balance at December 31				**–**	–	–	**(25,067)**	(25,067)	(25,067)
				–	–	–	**976,908**	993,962	976,479
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				**11,068**	10,376	10,113	**11,068**	10,376	10,113
Share in net income				**250**	692	263	**250**	692	263
Balance at December 31				**11,318**	11,068	10,376	**11,318**	11,068	10,376
				13,318	13,068	12,376	**13,318**	13,068	12,376
				₱13,318	₱13,068	₱12,376	**₱990,226**	₱1,007,030	₱988,855

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

	PRBI		RBNI		RBKI		PISAI	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Balance at January 1	**₱918,296**	₱520,552	**₱–**	₱393,297	**₱–**	₱–	**₱10,000**	₱10,000
Acquisition of a subsidiary	**–**	–	**–**	–	**–**	4,447	**–**	–
Effect of three-way merger	**–**	397,744	**–**	(393,297)	**–**	(4,447)	**–**	–
Balance at December 31	**₱918,296**	₱918,296	**₱–**	₱–	**₱–**	₱–	**₱10,000**	₱10,000

Acquisition of RBKI

Prior to the acquisition of PRBI by the Parent Company, PRBI was in the process of consolidating RBKI, a bank that was owned by the then majority owners of PRBI. As PRBI was pushing for an earlier approval of the Parent Company's buy-out, on August 7, 2014, PRBI 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 PRBI and RBKI upon receipt of the BSP approval for its acquisition of PRBI. On January 30, 2015, the former shareholders of PRBI confirmed in writing that the consideration from the Parent Company covered both the payment for its shares in PRBI and RBKI. Thus, the final purchase price of ₱498.99 million shall be allocated between PRBI and RBKI based on the relative fair values of their net assets. The consideration paid pertaining to RBKI of ₱4.45 million was treated as deposit for future acquisition until regulatory approvals for the acquisition of RBKI were obtained.

In 2015, the Parent Company's BOD in its regular meeting authorized the three-way merger of PRBI, RBNI and RBKI, with PRBI 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

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

PRBI

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 PRBI, RBNI and RBKI, with PRBI as the surviving entity, as discussed below.

Three-way merger of PRBI, RBNI and RBKI
On October 28, 2015, the Parent Company's BOD in its regular meeting authorized the three-way merger of PRBI, RBNI and RBKI, with PRBI 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 PRBI 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 PRBI'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 PRBI, as the surviving entity, received all the assets and assumed all the liabilities of RBNI and RBKI. No shares of stock were issued by PRBI for the aforementioned merger.

<u>RBNI</u>
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.

<u>PISAI</u>
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 ₱206.96 million ($3.94 million) and ₱534.93 million ($10.7 million) as of December 31, 2018 and 2017, respectively, net of allowance for ECL (see Note 17).

As of December 31, 2018 and 2017, there is no outstanding SPURA.

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

	2018	2017	2016
SPURA	**₱23,870**	₱34,479	₱14,441
Interbank loans receivable	**17,421**	4,426	4,632
	₱41,291	₱38,905	₱19,073

Interbank loans receivable bears nominal annual interest rates ranging from 0.60% to 3.00% in 2018, 0.60% to 3.31% in 2017, and 0.40% to 2.56% in 2016 while SPURA bears nominal annual interest rates ranging from 2.21% to 3.00% in 2018, 3.00% to 3.15% in 2017, and 3.00% to 4.00% in 2016.

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 government securities amounting to ₱893.22 million and ₱2.74 billion as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, financial assets at FVTPL include net unrealized loss amounting to ₱1.86 million and ₱5.74 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. Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI)

As of December 31, 2018 and 2017, the Group's and the Parent Company's financial assets at FVTOCI consists of the following:

	2018	2017
Debt securities:		
Government	**₱4,641,275**	₱–
Private bonds	**2,051,836**	–
	6,693,111	–
Equity securities:		
Quoted equity securities	**74,210**	49,045
Unquoted equity securities	**30,909**	41,594
	105,119	90,639
	₱6,798,230	₱90,639

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 2018 and 2017, 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 debt and equity securities recognized in OCI follow:

	2018	2017
Balance at January 1	**₱64,104**	₱33,621
Transition adjustment (Note 17)	**346**	–
	64,450	
Unrealized gain as a result of reclassification from amortized cost to FVTOCI (Note 3)	**56,901**	–
Fair value changes during the year - debt securities	**(67,319)**	–
Gains taken to profit or loss upon sale of FVTOCI debt securities	**(53,375)**	–
Provision for credit losses (Note 17)	**5,730**	–
Fair value changes during the year - equity securities	**13,029**	30,483
Balance at December 31	**₱19,416**	₱64,104

11. Investment Securities at Amortized Cost

As of December 31, 2018 and 2017, the Group's and the Parent Company's investment securities at amortized cost consist of the following:

	2018	2017
Government securities	**₱13,349,084**	₱13,789,737
Private bonds	**–**	1,627,464
	13,349,084	15,417,201
Allowance for ECL (Note 17)	**(7,485)**	–
	₱13,341,599	₱15,417,201

As of December 31, 2018, investment securities at amortized cost are comprised of the Parent Company's investment in Peso-denominated securities amounting to ₱11.15 billion and investment in foreign currency-denominated securities amounting to ₱2.19 billion ($37.17 million and €3.99 million).

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).

Peso-denominated government bonds have effective interest rates ranging from 2.93% to 4.75%, 2.13% to 6.21%, and 1.67% to 6.21% in 2018, 2017 and 2016, respectively. Foreign currency-denominated bonds have effective interest rates ranging from 2.54% to 3.03%, 2.54% to 5.07%, and 2.54% to 5.07% in 2018, 2017 and 2016, respectively.

12. **Loans and Receivables**

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Receivables from customers:				
Corporate loans	**₱45,262,520**	₱38,391,852	**₱45,262,520**	₱38,391,852
Consumer loans:				
Auto loans	**5,765,873**	5,997,181	**5,765,873**	5,997,181
Home loans	**5,759,599**	4,847,653	**5,759,599**	4,847,653
Personal loans	**3,088,540**	2,823,354	**1,227,718**	1,068,831
	59,876,532	52,060,040	**58,015,710**	50,305,517
Unearned discounts and capitalized interest	**(150,027)**	(182,647)	**(77,862)**	(107,845)
	59,726,505	51,877,393	**57,937,848**	50,197,672
Unquoted debt securities	**1,404,422**	2,811,827	**1,404,422**	2,811,827
Accrued interest receivable	**909,479**	814,596	**882,911**	781,494
Accounts receivable	**333,298**	251,137	**313,119**	234,657
Sales contracts receivable	**176,388**	168,093	**125,126**	155,333
	62,550,092	55,923,046	**60,663,426**	54,180,983
Less allowance for ECL/credit losses (Note 17)	**(2,470,886)**	(2,570,079)	**(2,442,247)**	(2,560,984)
	₱60,079,206	₱53,352,967	**₱58,221,179**	₱51,619,999

BSP Reporting

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

	Consolidated				Parent Company			
	2018		2017		**2018**		2017	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Real estate, renting and business activities	**₱12,547,912**	**21.01**	₱8,634,774	16.64	**12,547,971**	**21.66**	₱8,634,774	17.20
Wholesale and retail trade	**12,102,137**	**20.26**	11,012,377	21.23	**12,027,801**	**20.76**	10,947,069	21.81
Manufacturing	**9,478,683**	**15.87**	8,795,298	16.95	**9,478,683**	**16.36**	8,795,298	17.52
Activities of households as employers; undifferentiated goods and services-producing activities of households for own use	**8,119,399**	**13.60**	7,898,283	15.22	**6,521,909**	**11.26**	6,675,688	13.30
Electric, gas and water supply	**3,419,905**	**5.73**	3,289,698	6.34	**3,419,905**	**5.90**	3,289,698	6.55
Financial and insurance activities	**3,190,770**	**5.34**	4,022,210	7.75	**3,190,770**	**5.51**	4,022,210	8.01
Accommodation and food service activities	**3,143,170**	**5.26**	156,585	0.30	**3,143,170**	**5.43**	156,585	0.31
Transport, storage and communication	**2,546,672**	**4.26**	1,670,510	3.22	**2,546,672**	**4.40**	1,670,510	3.33
Construction	**2,270,234**	**3.80**	2,578,865	4.97	**2,270,232**	**3.92**	2,578,865	5.14
Agriculture, hunting and forestry	**1,201,574**	**2.02**	1,615,185	3.11	**1,135,310**	**1.96**	1,314,536	2.62
Other service activities	**544,781**	**0.91**	420,891	0.81	**494,158**	**0.85**	340,954	0.68
Mining and quarrying	**237,709**	**0.40**	48,018	0.09	**237,709**	**0.40**	48,018	0.10
Human health and social work activities	**103,760**	**0.17**	615,214	1.19	**103,760**	**0.18**	615,214	1.23
Education	**41,667**	**0.07**	52,957	0.10	**41,667**	**0.07**	48,004	0.10
Others	**778,132**	**1.30**	1,066,528	2.08	**778,131**	**1.34**	1,060,249	2.10
	₱59,726,505	**100.00**	₱51,877,393	100.00	**₱57,937,848**	**100.00**	₱50,197,672	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			
	2018		2017		2018		2017	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Loans secured by:								
Real estate	**₱16,649,862**	**27.81**	₱7,997,286	15.36	**₱16,550,671**	**28.53**	₱7,871,633	15.65
Chattel	**4,718,651**	**7.88**	4,459,181	8.57	**4,718,403**	**8.13**	4,458,933	8.86
Deposit hold-out	**929,744**	**1.55**	890,530	1.71	**881,009**	**1.52**	855,758	1.70
Securities and others	**3,417,031**	**5.71**	1,790,686	3.44	**3,417,031**	**5.89**	1,790,686	3.56
Secured	**25,715,288**	**42.95**	15,137,683	29.08	**25,567,114**	**44.07**	14,977,010	29.77
Unsecured loans	**34,161,244**	**57.05**	36,922,357	70.92	**32,448,596**	**55.93**	35,328,507	70.23
	₱59,876,532	**100.00**	₱52,060,040	100.00	**₱58,015,710**	**100.00**	₱50,305,517	100.00

NPLs classified as secured and unsecured as reported to the BSP follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Secured	**₱408,989**	₱625,473	**₱366,674**	₱337,970
Unsecured	**2,212,304**	2,003,440	**1,837,472**	1,850,930
	₱2,621,293	₱2,628,913	**₱2,204,146**	₱2,188,900

In accordance with BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-Performing Loans*, loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, if it satisfies the following conditions:

a. It is considered impaired under existing accounting standards;
b. It is classified as doubtful or loss;
c. It is under litigation; and
d. There is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until:

a. There is sufficient evidence to support that full collection of principal and interests is probable and at least six consecutive payments of the required amortization of principal and/or interest are received; or
b. Written-off.

As of December 31, 2018 and 2017, based on the revised definition of NPLs under MORB Section X306.2, NPLs of ₱621.75 million for 2018 and ₱483.52 million for 2017, which the Group reported to the BSP are net of specific allowance amounting to ₱2.00 billion and ₱2.15 billion, respectively. Gross and net NPL ratios of the Group are 4.40% and 1.04% for 2018, respectively, and 5.09% and 0.94% for 2017, respectively.

As of December 31, 2018 and 2017, based on the revised definition of NPLs under MORB Section X306.2, NPLs of ₱590.46 million for 2018 and ₱489.98 million for 2017, which the Parent Company reported to the BSP are net of specific allowance amounting to ₱1.61 billion and ₱1.70 billion, respectively. Gross and net NPL ratios of the Parent Company are 3.84% and 1.03% for 2018, respectively, and 4.42% and 0.99% for 2017, respectively.

Unquoted Debt Securities
As of December 31, 2018 and 2017, unquoted debt securities of the Group and the Parent Company consist of the following:

	2018	2017
Investments in:		
Fixed-Rate Corporate Notes	**₱82,272**	₱1,398,514
Metro Rail Transit (MRT) bonds	**1,322,150**	1,413,313
	1,404,422	2,811,827
Less allowance for ECL	**(994)**	–
	₱1,403,428	₱2,811,827

The accretion of interest on unquoted debt securities amounted to ₱94.84 million, ₱93.48 million and ₱180.52 million in 2018, 2017 and 2016, respectively, which is included under 'Interest income - Loans and receivables' in the statements of income.

Accounts Receivable
In 2016, accounts receivable included the 20% final withholding tax (FWT) 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.

Prior to 2016, the allowance for credit losses provided for the receivable was ₱53.39 million, which has been fully reversed in 2016 as a result of the final decision of the Supreme Court (SC) directing BTr to immediately release and pay the amount representing 20% FWT on the PEACe bonds and interest income equivalent to 6% per annum from October 2011 until settlement.

The PEACe bonds were subjected to 20% final tax since these were considered as public borrowing instruments since its nature is as if deposit substitutes and subject to 20% FWT following BIR Ruling No. 370-2011 which was released on October 7, 2011.

Upon investment, the Parent Company treated the PEACe bonds as tax-exempt investments in accordance with Bureau of Internal Revenue (BIR) Ruling 020-2001, which states that the 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.

Due to BIR Ruling No. 370-2011, the Parent Company filed a case against the BIR and the final decision was givenby the SC mandating the BTr to release the amount representing 20% FWT on the PEACe bonds and interest income equivalent to 6% per annum from October 2011 until settlement.

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 as interest income in the statements of income.

Interest Income

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

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Receivables from customers:						
Corporate	**₱2,466,544**	₱1,834,314	₱1,487,781	**₱2,466,544**	₱1,834,314	₱1,487,781
Consumer	**1,326,355**	1,114,204	1,118,359	**1,024,694**	820,211	757,627
Unquoted debt securities	**220,656**	253,390	280,009	**220,656**	253,390	280,009
Others	**14,712**	14,013	15,919	**11,465**	13,395	14,484
	₱4,028,267	₱3,215,921	₱2,902,068	**₱3,723,359**	₱2,921,310	₱2,539,901

Of the total receivables from customers of the Group as of December 31, 2018, 2017 and 2016, 48.49%, 51.27% and 63.75%, respectively, are subject to periodic interest repricing. The remaining peso-denominated receivables from customers earn annual fixed interest rates ranging from 3.00% to 59.88% in 2018, 1.75% to 38.40% in 2017, and 2.68% to 38.40% in 2016, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 4.00% to 9.82% in 2018 and 3.50% to 9.82% in 2017 and 2016.

Unquoted debt securities have EIRs ranging from 5.47 % to 11.90% in 2018, 2017 and 2016. Sales contracts receivable bears interest rates ranging from 5.55% to 14.50% in 2018, 7.00% to 14.50% in 2017, and 6.00% to 14.50% in 2016.

13. Property and Equipment

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

	Consolidated					
	2018					
	Land	Condominium Properties	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
Balance at January 1	₱164,881	₱552,014	₱434,780	₱1,040,993	₱413,700	₱2,606,368
Additions during the year	–	76	21,600	85,706	15,788	123,170
Disposals during the year	–	–	–	(35,739)	–	(35,739)
Transfers during the year (Note 16)	–	–	–	8,883	–	8,883
Balance at December 31	164,881	552,090	456,380	1,099,843	429,488	2,702,682
Accumulated depreciation and amortization						
Balance at January 1	–	182,832	285,791	791,170	237,702	1,497,495
Depreciation during the year	–	9,496	20,572	117,672	56,219	203,959
Disposals during the year	–	–	–	(21,990)	–	(21,990)
Transfers during the year (Note 16)	–	–	–	1,869	–	1,869
Balance at December 31	–	192,328	306,363	888,721	293,921	1,681,333
Net book value	₱164,881	₱359,762	₱150,017	₱211,122	₱135,567	₱1,021,349

	Consolidated					
	2017 (As restated)					
	Land	Condominium Properties (Note 14)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
Balance at January 1	₱165,409	₱550,852	₱446,742	₱1,036,596	₱426,343	₱2,625,942
Additions during the year	–	1,162	1,017	40,568	10,904	53,651
Disposals during the year	(528)	–	(863)	(64,613)	(23,547)	(89,551)
Transfers during the year (Notes 14 and 16)	–	–	(12,116)	28,442	–	16,326
Balance at December 31	164,881	552,014	434,780	1,040,993	413,700	2,606,368
Accumulated depreciation and amortization						
Balance at January 1	–	165,821	278,321	700,029	188,994	1,333,165
Depreciation during the year	–	17,011	21,227	133,723	56,983	228,944
Disposals during the year	–	–	(746)	(54,733)	(8,275)	(63,754)
Transfers during the year (Notes 14 and 16)	–	–	(13,011)	12,151	–	(860)
Balance at December 31	–	182,832	285,791	791,170	237,702	1,497,495
Net book value	₱164,881	₱369,182	₱148,989	₱249,823	₱175,998	₱1,108,873

	Parent Company					
	2018					
	Land	**Condominium Properties**	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost						
Balance at January 1	**₱117,678**	**₱552,014**	**₱385,353**	**₱995,171**	**₱393,306**	**₱2,443,522**
Additions during the year	**–**	**76**	**20,726**	**80,358**	**8,552**	**109,712**
Disposals during the year	**–**	**–**	**–**	**(34,892)**	**–**	**(34,892)**
Transfers during the year (Note 16)	**–**	**–**	**–**	**8,883**	**–**	**8,883**
Balance at December 31	**117,678**	**552,090**	**406,079**	**1,049,520**	**401,858**	**2,527,225**
Accumulated depreciation and amortization						
Balance at January 1	**–**	**182,832**	**269,869**	**761,701**	**221,689**	**1,436,091**
Depreciation during the year	**–**	**9,496**	**16,130**	**109,390**	**52,961**	**187,977**
Disposals during the year	**–**	**–**	**–**	**(21,655)**	**–**	**(21,655)**
Transfers during the year (Note 16)	**–**	**–**	**–**	**1,869**	**–**	**1,869**
Balance at December 31	**–**	**192,328**	**285,999**	**851,305**	**274,650**	**1,604,282**
Net book value	**₱117,678**	**₱359,762**	**₱120,080**	**₱198,215**	**₱127,208**	**₱922,943**

	Parent Company					
	2017 (As restated)					
	Land	Condominium Properties (Note 14)	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
Balance at January 1	₱117,678	₱550,852	₱400,093	₱997,431	₱405,949	₱2,472,003
Additions during the year	–	1,162	840	32,942	10,904	45,848
Disposals during the year	–	–	–	(63,644)	(23,547)	(87,191)
Transfers during the year (Notes 14 and 16)	–	–	(15,580)	28,442	–	12,862
Balance at December 31	117,678	552,014	385,353	995,171	393,306	2,443,522
Accumulated depreciation and amortization						
Balance at January 1	–	165,821	267,310	681,299	175,974	1,290,404
Depreciation during the year	–	17,011	16,723	122,937	53,990	210,661
Disposals during the year	–	–	–	(54,686)	(8,275)	(62,961)
Transfers during the year (Notes 14 and 16)	–	–	(14,164)	12,151	–	(2,013)
Balance at December 31	–	182,832	269,869	761,701	221,689	1,436,091
Net book value	₱117,678	₱369,182	₱115,484	₱233,470	₱171,617	₱1,007,431

In February 2017, the 3rd floor of Parent Company's Binondo building was converted from office units for lease to Bank premises due to a need for storage area and additional operating space.

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.

In December 2017, the operating lease on one of PRBI's buildings expired. PRBI decided to use the building to house its new data server. Consequently, this property was converted from investment property to Bank premises.

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 ₱1.07 million, (₱9.94 million), and (₱7.78 million) in 2018, 2017 and 2016, respectively. The Parent Company recognized gain (loss) on disposal of furniture, fixtures, and equipment amounting to ₱1.06 million, (₱13.13 million), and (₱7.78 million) in 2018, 2017 and 2016, respectively.

Depreciation and Amortization
Details of this account are as follows:

	Consolidated			Parent Company		
	2018	2017 (As restated)	2016 (As restated)	**2018**	2017 (As restated)	2016 (As restated)
Property and equipment	**₱203,959**	₱228,944	₱256,450	**₱187,977**	₱210,661	₱237,804
Investment properties (Note 14)	**82,012**	93,671	69,736	**81,133**	88,845	68,997
Software costs (Note 15)	**73,987**	67,345	76,634	**73,429**	65,933	74,198
Chattel mortgage (Note 16)	**44,395**	29,893	12,494	**44,378**	29,893	12,494
	₱404,353	₱419,853	₱415,314	**₱386,917**	₱395,332	₱393,493

As of December 31, 2018 and 2017, the cost of fully depreciated furniture, fixtures and equipment still in use by the Group amounted to ₱636.24 million and ₱479.54 million, respectively.

As of December 31, 2018 and 2017, the cost of fully depreciated furniture, fixtures and equipment still in use by the Parent Company amounted to ₱560.67 million and ₱419.43 million, respectively.

14. **Investment Properties**

The composition of and movements in this account follow:

	Consolidated				
	2018				
	Foreclosed Properties				
	Land	Building and Improvements	Total	Office Units for Lease	Condominium Units for Lease
Cost					
Balance at January 1	**₱564,625**	**₱500,553**	**₱1,065,178**	**₱39,274**	**₱2,561,179**
Additions during the year	**44,357**	**68,660**	**113,017**	**–**	**423**
Disposals during the year	**(41,104)**	**(4,924)**	**(46,028)**	**–**	**–**
Balance at December 31	**567,878**	**564,289**	**1,132,167**	**39,274**	**2,561,602**
Accumulated depreciation and amortization					
Balance at January 1	**–**	**115,519**	**115,519**	**35,275**	**677,483**
Depreciation during the year	**–**	**30,244**	**30,244**	**375**	**51,393**
Disposals during the year	**–**	**(467)**	**(467)**	**–**	**–**
Balance at December 31	**–**	**145,296**	**145,296**	**35,650**	**728,876**
Accumulated impairment losses					
Balance at January 1	**112,574**	**100,546**	**213,120**	**–**	**–**
Provisions during the year	**203**	**3,613**	**3,816**	**–**	**–**
Disposals during the year	**(2,032)**	**(458)**	**(2,490)**	**–**	**–**
Balance at December 31	**110,745**	**103,701**	**214,446**	**–**	**–**
Net book value	**₱457,133**	**₱315,292**	**₱772,425**	**₱3,624**	**₱1,832,726**

	Consolidated				
	2017 (As restated)				
	Foreclosed Properties				
	Land	Building and Improvements	Total	Office Units for Lease (Note 13)	Condominium Units for Lease
Cost					
Balance at January 1	₱559,859	₱476,153	₱1,036,012	₱23,408	₱2,554,629
Additions during the year	27,807	33,338	61,145	286	6,550
Disposals during the year	(23,041)	(5,474)	(28,515)	–	–
Transfers during the year (Note 13)	–	(3,464)	(3,464)	15,580	–
Balance at December 31	564,625	500,553	1,065,178	39,274	2,561,179
Accumulated depreciation and amortization					
Balance at January 1	–	77,836	77,836	21,023	625,660
Depreciation during the year	–	41,760	41,760	88	51,823
Disposals during the year	–	(2,924)	(2,924)	–	–
Transfers during the year (Note 13)	–	(1,153)	(1,153)	14,164	–
Balance at December 31	–	115,519	115,519	35,275	677,483
Accumulated impairment losses					
Balance at January 1	121,684	101,194	222,878	–	–
Provisions during the year	100	–	100	–	–
Disposals during the year	(9,210)	(648)	(9,858)	–	–
Balance at December 31	112,574	100,546	213,120	–	–
Net book value	₱452,051	₱284,488	₱736,539	₱3,999	₱1,883,696

	Parent Company 2018				
	Foreclosed Properties				
	Land	Building and Improvements	Total	Office Units for Lease	Condominium Units for Lease
Cost					
Balance at January 1	**₱375,055**	**₱480,464**	**₱855,519**	**₱39,274**	**₱2,561,179**
Additions during the year	**40,194**	**61,069**	**101,263**	**–**	**423**
Disposals during the year	**(2,115)**	**(5,435)**	**(7,550)**	**–**	**–**
Balance at December 31	**413,134**	**536,098**	**949,232**	**39,274**	**2,561,602**
Accumulated depreciation and amortization					
Balance at January 1	**–**	**106,535**	**106,535**	**35,275**	**677,483**
Depreciation during the year	**–**	**29,365**	**29,365**	**375**	**51,393**
Disposals during the year	**–**	**(389)**	**(389)**	**–**	**–**
Balance at December 31	**–**	**135,511**	**135,511**	**35,650**	**728,876**
Accumulated impairment losses					
Balance at January 1	**101,095**	**100,064**	**201,159**	**–**	**–**
Provisions during the year	**–**	**3,613**	**3,613**	**–**	**–**
Disposals during the year	**(3,128)**	**(458)**	**(3,586)**	**–**	**–**
Balance at December 31	**97,967**	**103,219**	**201,186**	**–**	**–**
Net book value	**₱315,167**	**₱297,368**	**₱612,535**	**₱3,624**	**₱1,832,726**

	Parent Company 2017 (As restated)				
	Foreclosed Properties				
	Land	Building and Improvements	Total	Office Units for Lease (Note 13)	Condominium Units for Lease
Cost					
Balance at January 1	₱373,582	₱451,804	₱825,386	₱23,408	₱2,554,629
Additions during the year	19,756	33,039	52,795	286	6,550
Disposals during the year	(18,283)	(4,379)	(22,662)	–	–
Transfers during the year (Note 13)	–	–	–	15,580	–
Balance at December 31	375,055	480,464	855,519	39,274	2,561,179
Accumulated depreciation and amortization					
Balance at January 1	–	71,744	71,744	21,023	625,660
Depreciation during the year	–	36,934	36,934	88	51,823
Disposals during the year	–	(2,143)	(2,143)	–	–
Transfers during the year (Note 13)	–	–	–	14,164	–
Balance at December 31	–	106,535	106,535	35,275	677,483
Accumulated impairment losses					
Balance at January 1	105,726	100,712	206,438	–	–
Disposals during the year	(4,631)	(648)	(5,279)	–	–
Balance at December 31	101,095	100,064	201,159	–	–
Net book value	₱273,960	₱273,865	₱547,825	₱3,999	₱1,883,696

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 certificates of title 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 February 2017, the 3rd floor of the PBCom Tower was converted from office units for lease to bank premises due to a need for storage area and additional operating space.

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.

In December 2017, the operating lease on one of PRBI's buildings expired. PRBI decided to use the building as its office space. Consequently, this property was converted from investment property to bank premises.

As of December 31, 2018 and 2017, 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' (see Note 13).

As of December 31, 2018 and 2017, the aggregate fair value of investment properties amounted to ₱7.78 billion and ₱6.44 billion, respectively, for the Group, and ₱7.56 billion and ₱6.44 billion, respectively, for the Parent Company, which has been determined based on valuations made by professionally qualified appraisers accredited by the BSP and SEC.

The Parent Company recognized rental income (included under 'Rent income' in the statements of income) amounting to ₱607.92 million, ₱545.50 million, and ₱452.80 million in 2018, 2017 and 2016, respectively, on condominium properties leased out under operating leases. In 2018, 2017 and 2016, the Parent Company also recognized rental income from office units for lease amounting to ₱5.71 million, ₱3.26 million and ₱1.69 million, respectively.

The Group recorded gain (loss) from foreclosure of loan collaterals amounting to ₱23.11 million, ₱5.41 million and ₱32.10 million in 2018, 2017, and 2016, respectively. The Parent Company recognized gain (loss) from foreclosure of loan collaterals amounting to ₱13.13 million, (₱0.16 million) and ₱32.09 million in 2018, 2017, and 2016, 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 ₱19.87 million, ₱47.17 million and ₱15.43 million in 2018, 2017, and 2016, respectively. The Parent Company recognized gain (loss) from the disposal of certain foreclosed properties amounting to (₱2.45 million), ₱41.79 million and ₱11.47 million in 2018, 2017, and 2016, 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 ₱95.97 million, ₱89.55 million and ₱54.59 million in 2018, 2017, and 2016, 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 ₱47.65 million, ₱51.26 million and ₱28.73 million in 2018, 2017, and 2016, 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.

As of December 31, 2018 and 2017, PRBI as the surviving entity from the three-way merger (see Note 7) is the identified CGU for purposes of impairment testing of the goodwill from the acquisitions of RBNI, PRBI and RBKI aggregating to ₱182.23 million.

Management assessed that no impairment losses shall be recognized in 2018, 2017 and 2016.

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 5-year strategic plan for PRBI, as approved by its BOD and the Parent Company. The significant assumptions used in computing for the recoverable amount of the CGU follow:

Significant Assumptions	**2018**	2017
Growth rates:		
Loans	**11.30% - 13.90%**	18.10% - 27.00%
Deposits	**6.30% - 8.60%**	5.85% - 23.76%
Discount rate	**12.48%**	12.17%
Terminal value growth rate	**5.78%**	5.00%

Growth rates were based on experiences and strategies developed by PRBI. The discount rate used for the computation of the present value of the projected cash flows is the cost of equity and was determined by reference to comparable entities. The terminal value growth rate has been determined to reflect the long-term view on the CGU's business.

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**	
	2018	2017	**2018**	2017
Branch licenses	**₱365,300**	₱365,300	**₱102,100**	₱102,100
Software costs	**338,475**	378,879	**337,883**	378,333
	₱703,775	₱744,179	**₱439,983**	₱480,433

Branch licenses
Branch licenses of the Group arose from the acquisitions of Consumer Savings Bank (CSB), PRBI and RBNI. As of December 31, 2018 and 2017, details of branch licenses follow:

	Consolidated	Parent Company
Branch licenses from the acquisition of:		
RBNI	₱262,900	₱–
CSB	102,100	102,100
PRBI	300	–
	₱365,300	₱102,100

As of December 31, 2018 and 2017, the individual branches were identified as the CGU for purposes of impairment testing on the branch licenses for CSB. For the impairment testing on the branch licenses arising from the acquisition of PRBI and RBNI, PRBI was identified as the CGU.

In 2018, 2017 and 2016, the Parent Company's impairment assessment indicates no impairment.

Key assumptions used in the VIU calculations
As of December 31, 2018 and 2017, the recoverable amounts of the CGUs have been determined based on VIU calculations that use cash flow projections based on financial budgets approved by management covering a 5-year period. The significant assumptions used in computing for the recoverable amount of the CSB branches follow:

Significant Assumptions	**2018**	2017
Deposit growth rates	**6.30% - 8.60%**	20.94% - 20.51%
Discount rate	**13.89%**	12.39%
Terminal value growth rate	**5.78%**	5.00%

Deposit growth rates were based on experiences and strategies developed by the Parent Company. The discount rate used for the computation of the present value of the projected cash flows is the cost of equity and was determined by reference to comparable entities. The terminal value growth rate has been determined to reflect the long-term view on the CGU's business.

For PRBI, the VIU calculated for goodwill impairment assessment was also used.

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**	
	2018	2017	**2018**	2017
Balance at January 1	**₱378,879**	₱415,866	**₱378,333**	₱413,908
Additions during the year	**33,583**	30,358	**32,979**	30,358
	412,462	446,224	**411,312**	444,266
Amortization during the year (Note 13)	**(73,987)**	(67,345)	**(73,429)**	(65,933)
Balance at December 31	**₱338,475**	₱378,879	**₱337,883**	₱378,333

16. **Other Assets**

Other assets consist of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Receivable from BIR	**₱181,684**	₱181,684	**₱181,684**	₱181,684
Tax credits	**354,735**	328,927	**353,537**	328,927
Nostro floats	**206,414**	206,414	**206,414**	206,414
Prepaid expenses	**111,194**	92,732	**102,346**	89,880
Chattel mortgage	**40,285**	73,615	**40,226**	73,615
RCOCI	**5,434**	10,400	**5,434**	10,400
Retirement asset (Note 27)	**81,394**	–	**74,350**	–
Miscellaneous	**187,141**	140,152	**180,371**	128,660
	1,168,281	1,033,924	**1,144,362**	1,019,580
Less allowance for impairment losses (Note 17)	**(336,079)**	(335,981)	**(336,079)**	(335,981)
	₱832,202	₱697,943	**₱808,283**	₱683,599

Receivable from BIR
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. In 2017, the Parent Company also 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, 2018 and 2017, the balance of allowance for impairment losses on receivable from BIR amounted to ₱125.53 million.

Nostro Floats
As of December 31, 2018 and 2017, Nostro floats are fully provided with allowance for impairment losses.

Chattel Mortgage
The movements in chattel mortgage of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Cost				
Balance at January 1	**₱86,168**	₱50,370	**₱86,168**	₱50,370
Additions during the year	**180,562**	167,196	**180,484**	167,196
Disposals during the year	**(212,198)**	(102,956)	**(212,198)**	(102,956)
Transfers during the year (Note 13)	**(8,883)**	(28,442)	**(8,883)**	(28,442)
Balance at December 31	**45,649**	86,168	**45,571**	86,168
Accumulated depreciation and amortization				
Balance at January 1	**12,553**	9,976	**12,553**	9,976
Depreciation during the year	**44,395**	29,893	**44,378**	29,893
Disposals during the year	**(49,715)**	(15,165)	**(49,717)**	(15,165)
Transfers during the year (Note 13)	**(1,869)**	(12,151)	**(1,869)**	(12,151)
Balance at December 31	**5,364**	12,553	**5,345**	12,553
Net book value	**₱40,285**	₱73,615	**₱40,226**	₱73,615

In 2018, 2017 and 2016, gain (loss) recognized by the Group and the Parent Company from the disposal of certain chattel mortgage amounted to (₱8.17 million), (₱6.70 million) and ₱0.99 million, respectively. This is included under 'Profit (loss) from assets sold' in the statements of income.

Miscellaneous
As of December 31, 2018 and 2017, the Group's and the Parent Company's miscellaneous other assets consist of the following:

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Documentary stamp taxes (DST)	**₱63,129**	₱45,288	**₱63,129**	₱45,288
Refundable security deposits	**33,022**	29,414	**30,877**	27,810
Advance rentals	**12,677**	12,582	**12,677**	12,582
Stationery and supplies	**9,732**	8,545	**6,864**	5,286
Others	**68,581**	44,323	**66,824**	37,694
	₱187,141	₱140,152	**₱180,371**	₱128,660

17. **Allowance for Credit and Impairment Losses**

As of December 31, 2018, the analyses of changes in the allowance for ECL follow:

Consolidated

Interbank loans receivable

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱12	₱–	₱–	₱12
Newly originated assets that remained in Stage 1 as at December 31, 2018	1	–	–	1
Effect of collections and other movements (excluding write-offs)	(12)	–	–	(12)
Allowance for ECL, December 31, 2018	₱1	₱–	₱–	₱1

Investment securities at FVTOCI

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱346	₱–	₱–	₱346
Newly originated assets that remained in Stage 1 as at December 31, 2018	5,783	–	–	5,783
Effect of collections and other movements (excluding write-offs)	(304)	–	–	(304)
Impact on ECL of exposures that did not transfer between stages	251	–	–	251
Allowance for ECL, December 31, 2018	₱6,076	₱–	₱–	₱6,076

Investment securities at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱9,005	₱–	₱–	₱9,005
Impact on ECL of exposures that did not transfer between stages	(1,520)	–	–	(1,520)
Allowance for ECL, December 31, 2018	₱7,485	₱–	₱–	₱7,485

Receivables from customers

	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Allowance for ECL, January 1, 2018	₱337,725	₱79,407	₱1,108,429	₱1,525,561
Newly originated assets that remained in Stage 1 as at December 31, 2018	350,222	–	–	350,222
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	55,027	–	55,027
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(219,891)	(33,704)	(52,726)	(306,321)
Transfers to ROPA	–	–	(3,596)	(3,596)
Transfers to Stage 1	39,593	(39,593)	–	–
Transfers to Stage 2	(16,853)	148,969	(132,116)	–
Transfers to Stage 3	(236)	(348)	584	–
Impact on ECL of exposures transferred between stages	(31,943)	(102,463)	23,155	(111,251)
Impact on ECL of exposures that did not transfer between stages	(201)	(1,802)	102,901	100,898
Accounts written-off	–	–	(461,739)	(461,739)
Foreign exchange adjustments	–	885	3,221	4,106
Allowance for ECL, December 31, 2018	458,416	106,378	588,113	1,152,907
Consumer loans:				
Auto loans:				
Allowance for ECL, January 1, 2018	71,090	44,007	251,276	366,373
Newly originated assets that remained in Stage 1 as at December 31, 2018	17,555	–	–	17,555
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	9,390	9,990	19,380
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(5,975)	(12,408)	(4,007)	(22,390)
Transfers to ROPA	–	–	(23,963)	(23,963)
Transfers to Stage 1	17,291	(14,903)	(2,388)	–
Transfers to Stage 2	(6,046)	6,722	(676)	–
Transfers to Stage 3	(3,684)	(11,633)	15,317	–
Impact on ECL of exposures transferred between stages	(15,487)	22,215	23,159	29,887
Impact on ECL of exposures that did not transfer between stages	(11,692)	(1,529)	(17,971)	(31,192)
Allowance for ECL, December 31, 2018	63,052	41,861	250,737	355,650
Home loans:				
Allowance for ECL, January 1, 2018	28,706	11,268	10,277	50,251
Newly originated assets that remained in Stage 1 as at December 31, 2018	11,719	–	–	11,719
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	8,456	12,475	20,931
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(4,571)	(865)	(661)	(6,097)
Transfers to ROPA	–	–	(4,499)	(4,499)
Transfers to Stage 1	4,064	(1,980)	(2,084)	–
Transfers to Stage 2	(1,350)	1,350	–	–
Transfers to Stage 3	(1,351)	(7,101)	8,452	–
Impact on ECL of exposures transferred between stages	(3,708)	12,195	29,177	37,664
Impact on ECL of exposures that did not transfer between stages	2,699	(121)	(255)	2,323
Allowance for ECL , December 31, 2018	36,208	23,202	52,882	112,292

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Personal loans:				
Allowance for ECL, January 1, 2018	₱65,661	₱20,159	₱346,826	₱432,646
Newly originated assets that remained in Stage 1 as at December 31, 2018	45,951	–	–	45,951
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	12,734	16,000	28,734
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(29,726)	(4,523)	(18,167)	(52,416)
Transfers to ROPA	–	–	(38)	(38)
Transfers to Stage 1	5,331	(1,472)	(3,859)	–
Transfers to Stage 2	(1,952)	2,256	(304)	–
Transfers to Stage 3	(6,087)	(13,103)	19,190	–
Impact on ECL of exposures transferred between stages	(4,966)	9,920	86,196	91,150
Impact on ECL of exposures that did not transfer between stages	(10,094)	(336)	(17,521)	(27,951)
Accounts written-off	–	–	(94,561)	(94,561)
Allowance for ECL, December 31, 2018	64,118	25,635	333,762	423,515
Total receivables from customers:				
Allowance for ECL, January 1, 2018	503,182	154,841	1,716,808	2,374,831
Newly originated assets that remained in Stage 1 as at December 31, 2018	425,447	–	–	425,447
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	85,607	38,465	124,072
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(260,163)	(51,500)	(75,561)	(387,224)
Transfers to ROPA	–	–	(32,096)	(32,096)
Transfers to Stage 1	66,279	(57,948)	(8,331)	–
Transfers to Stage 2	(26,201)	159,297	(133,096)	–
Transfers to Stage 3	(11,358)	(32,185)	43,543	–
Impact on ECL of exposures transferred between stages	(56,104)	(58,133)	161,687	47,450
Impact on ECL of exposures that did not transfer between stages	(19,288)	(3,788)	67,154	44,078
Accounts written-off	–	–	(556,300)	(556,300)
Foreign exchange adjustments	–	885	3,221	4,106
Allowance for ECL, December 31, 2018	₱621,794	₱197,076	₱1,225,494	₱2,044,364

Other receivables

	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2018	₱1,205	₱–	₱–	₱1,205
Impact on ECL of exposures that did not transfer between stages	(211)	–	–	(211)
Allowance for ECL, December 31, 2018	994	–	–	994
Accrued interest receivable:				
Allowance for ECL, January 1, 2018	3,288	2,663	374,936	380,887
Newly originated assets that remained in Stage 1 as at December 31, 2018	4,044	–	–	4,044
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	1,126	1,202	2,328
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(985)	(733)	(1,434)	(3,152)
Transfers to Stage 1	841	(669)	(172)	–
Transfers to Stage 2	(355)	765	(410)	–
Transfers to Stage 3	(271)	(1,112)	1,383	–

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Impact on ECL of exposures transferred between stages	(₱928)	₱275	₱3,264	₱2,611
Impact on ECL of exposures that did not transfer between stages	(186)	(223)	(1,722)	(2,131)
Accounts written-off	–	–	(2,766)	(2,766)
Foreign exchange adjustments	21	–	–	21
Allowance for ECL, December 31, 2018	5,469	2,092	374,281	381,842
Accounts receivable:				
Allowance for ECL, January 1, 2018	2,639	3,153	24,875	30,667
Newly originated assets that remained in Stage 1 as at December 31, 2018	721	–	–	721
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	75	166	241
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(50)	(8)	(26)	(84)
Transfers to Stage 3	(2,571)	(3,145)	5,716	–
Impact on ECL of exposures transferred between stages	–	–	183	183
Impact on ECL of exposures that did not transfer between stages	(18)	–	877	859
Accounts written-off	–	–	(2,604)	(2,604)
Allowance for ECL, December 31, 2018	721	75	29,187	29,983
Sales contracts receivable:				
Allowance for ECL, January 1, 2018	6,285	784	11,252	18,321
Newly originated assets that remained in Stage 1 as at December 31, 2018	720	–	–	720
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	–	43	43
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(481)	–	(193)	(674)
Transfers to Stage 1	(157)	15	142	–
Transfers to Stage 2	560	(579)	19	–
Transfers to Stage 3	46	(387)	341	–
Impact on ECL of exposures transferred between stages	(1,135)	2,690	140	1,695
Impact on ECL of exposures that did not transfer between stages	(2,070)	30	745	(1,295)
Accounts written-off	–	–	(5,107)	(5,107)
Allowance for ECL, December 31, 2018	3,768	2,553	7,382	13,703
Total other receivables:				
Allowance for ECL, January 1, 2018	13,417	6,600	411,063	431,080
Newly originated assets that remained in Stage 1 as at December 31, 2018	5,485	–	–	5,485
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	1,201	1,411	2,612
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(1,516)	(741)	(1,653)	(3,910)
Transfers to Stage 1	684	(654)	(30)	–
Transfers to Stage 2	205	186	(391)	–
Transfers to Stage 3	(2,796)	(4,644)	7,440	–
Impact on ECL of exposures transferred between stages	(2,063)	2,965	3,587	4,489
Impact on ECL of exposures that did not transfer between stages	(2,485)	(193)	(100)	(2,778)
Accounts written-off	–	–	(10,477)	(10,477)
Foreign exchange adjustments	21	–	–	21
Allowance for ECL, December 31, 2018	₱10,952	₱4,720	₱410,850	₱426,522

Parent Company

Interbank loans receivable

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱12	₱–	₱–	₱12
Newly originated assets that remained in Stage 1 as at December 31, 2018	1	–	–	1
Effect of collections and other movements (excluding write-offs)	(12)	–	–	(12)
Allowance for ECL, December 31, 2018	₱1	₱–	₱–	₱1

Investment securities at FVTOCI

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱346	₱–	₱–	₱346
Newly originated assets that remained in Stage 1 as at December 31, 2018	5,783	–	–	5,783
Effect of collections and other movements (excluding write-offs)	(304)	–	–	(304)
Impact on ECL of exposures that did not transfer between stages	251	–	–	251
Allowance for ECL, December 31, 2018	₱6,076	₱–	₱–	₱6,076

Investment securities at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱9,005	₱–	₱–	₱9,005
Impact on ECL of exposures that did not transfer between stages	(1,520)	–	–	(1,520)
Allowance for ECL, December 31, 2018	₱7,485	₱–	₱–	₱7,485

Receivables from customers

	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Allowance for ECL, January 1, 2018	₱337,725	₱79,407	₱1,108,429	₱1,525,561
Newly originated assets that remained in Stage 1 as at December 31, 2018	350,222	–	–	350,222
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	55,027	–	55,027
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(219,891)	(33,704)	(52,726)	(306,321)
Transfers to ROPA	–	–	(3,596)	(3,596)
Transfers to Stage 1	39,593	(39,593)	–	–
Transfers to Stage 2	(16,853)	148,969	(132,116)	–
Transfers to Stage 3	(236)	(348)	584	–
Impact on ECL of exposures transferred between stages	(31,943)	(102,463)	23,155	(111,251)
Impact on ECL of exposures that did not transfer between stages	(201)	(1,802)	102,901	100,898
Accounts written-off	–	–	(461,739)	(461,739)
Foreign exchange adjustments	–	885	3,221	4,106
Allowance for ECL, December 31, 2018	458,416	106,378	588,113	1,152,907
Consumer loans:				
Auto loans				
Allowance for ECL, January 1, 2018	71,090	44,007	251,276	366,373
Newly originated assets that remained in Stage 1 as at December 31, 2018	17,555	–	–	17,555

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	₱–	₱9,390	₱9,990	₱19,380
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(5,975)	(12,408)	(4,007)	(22,390)
Transfers to ROPA	–	–	(23,963)	(23,963)
Transfers to Stage 1	17,291	(14,903)	(2,388)	–
Transfers to Stage 2	(6,046)	6,722	(676)	–
Transfers to Stage 3	(3,684)	(11,633)	15,317	–
Impact on ECL of exposures transferred between stages	(15,487)	22,215	23,159	29,887
Impact on ECL of exposures that did not transfer between stages	(11,692)	(1,529)	(17,971)	(31,192)
Allowance for ECL, December 31, 2018	63,052	41,861	250,737	355,650
Home loans:				
Allowance for ECL, January 1, 2018	28,706	11,268	10,277	50,251
Newly originated assets that remained in Stage 1 as at December 31, 2018	11,719	–	–	11,719
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	8,456	12,475	20,931
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(4,571)	(865)	(661)	(6,097)
Transfers to ROPA	–	–	(4,499)	(4,499)
Transfers to Stage 1	4,064	(1,980)	(2,084)	–
Transfers to Stage 2	(1,350)	1,350	–	–
Transfers to Stage 3	(1,351)	(7,101)	8,452	–
Impact on ECL of exposures transferred between stages	(3,708)	12,195	29,177	37,664
Impact on ECL of exposures that did not transfer between stages	2,699	(121)	(255)	2,323
Allowance for ECL, December 31, 2018	36,208	23,202	52,882	112,292
Personal loans:				
Allowance for ECL, January 1, 2018	20,301	11,581	338,785	370,667
Newly originated assets that remained in Stage 1 as at December 31, 2018	14,762	–	–	14,762
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	5,809	5,664	11,473
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(6,368)	(989)	1,003	(6,354)
Transfers to Stage 1	4,217	(1,260)	(2,957)	–
Transfers to Stage 2	(999)	1,303	(304)	–
Transfers to Stage 3	(2,534)	(8,619)	11,153	–
Impact on ECL of exposures transferred between stages	(4,024)	3,721	19,961	19,658
Impact on ECL of exposures that did not transfer between stages	(4,677)	(244)	(1,944)	(6,865)
Accounts written-off	–	–	(5,154)	(5,154)
Allowance for ECL, December 31, 2018	20,678	11,302	366,207	398,187
Total receivables from customers:				
Allowance for ECL, January 1, 2018	457,822	146,263	1,708,767	2,312,852
Newly originated assets that remained in Stage 1 as at December 31, 2018	394,258	–	–	394,258
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	78,682	28,129	106,811
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(236,805)	(47,966)	(56,391)	(341,162)
Transfers to ROPA	–	–	(32,058)	(32,058)
Transfers to Stage 1	65,165	(57,736)	(7,429)	–

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 2	(₱25,248)	₱158,344	(₱133,096)	₱–
Transfers to Stage 3	(7,805)	(27,701)	35,506	–
Impact on ECL of exposures transferred between stages	(55,162)	(64,332)	95,452	(24,042)
Impact on ECL of exposures that did not transfer between stages	(13,871)	(3,696)	82,731	65,164
Accounts written-off	–	–	(466,893)	(466,893)
Foreign exchange adjustments	–	885	3,221	4,106
Allowance for ECL, December 31, 2018	₱578,354	₱182,743	₱1,257,939	₱2,019,036

Other receivables

	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2018	₱1,205	₱–	₱–	₱1,205
Impact on ECL of exposures that did not transfer between stages	(211)	–	–	(211)
Allowance for ECL, December 31, 2018	994	–	–	994
Accrued interest receivable:				
Allowance for ECL, January 1, 2018	2,500	2,348	396,337	401,185
Newly originated assets that remained in Stage 1 as at December 31, 2018	1,778	–	–	1,778
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	777	702	1,479
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(651)	(634)	(1,434)	(2,719)
Transfers to Stage 1	834	(662)	(172)	–
Transfers to Stage 2	(330)	740	(410)	–
Transfers to Stage 3	(132)	(909)	1,041	–
Impact on ECL of exposures transferred between stages	(922)	124	2,033	1,235
Impact on ECL of exposures that did not transfer between stages	(46)	(218)	(1,744)	(2,008)
Accounts written-off	–	–	(2,766)	(2,766)
Foreign exchange adjustments	21	–	–	21
Allowance for ECL, December 31, 2018	3,052	1,566	393,587	398,205
Accounts receivable:				
Allowance for ECL, January 1, 2018	–	–	15,171	15,171
Impact on ECL of exposures that did not transfer between stages	–	–	1,200	1,200
Accounts written-off	–	–	(2,604)	(2,604)
Allowance for ECL, December 31, 2018	–	–	13,767	13,767
Sales contracts receivable				
Allowance for ECL, January 1, 2018	4,465	315	5,146	9,926
Newly originated assets that remained in Stage 1 as at December 31, 2018	41	–	–	41
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	–	43	43
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(349)	–	(193)	(542)
Transfers to Stage 1	(157)	15	142	–
Transfers to Stage 2	560	(579)	19	–
Transfers to Stage 3	46	82	(128)	–
Impact on ECL of exposures transferred between stages	(1,135)	2,690	140	1,695

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Impact on ECL of exposures that did not transfer between stages	(₱457)	₱30	(₱491)	(₱918)
Allowance for ECL, December 31, 2018	3,014	2,553	4,678	10,245
Total other receivables				
Allowance for ECL, January 1, 2018	8,170	2,663	416,654	427,487
Newly originated assets that remained in Stage 1 as at December 31, 2018	1,819	–	–	1,819
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	777	745	1,522
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(1,000)	(634)	(1,627)	(3,261)
Transfers to Stage 1	677	(647)	(30)	–
Transfers to Stage 2	230	161	(391)	–
Transfers to Stage 3	(86)	(827)	913	–
Impact on ECL of exposures transferred between stages	(2,057)	2,814	2,173	2,930
Impact on ECL of exposures that did not transfer between stages	(714)	(188)	(1,035)	(1,937)
Accounts written-off	–	–	(5,370)	(5,370)
Foreign exchange adjustments	21	–	–	21
Allowance for ECL, December 31, 2018	₱7,060	₱4,119	₱412,032	₱423,211

As of December 31, 2018 and 2017, changes in the allowance for credit and impairment losses of the Group and the Parent Company follow:

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Balances at January 1:				
Loans and receivables (Note 12)	**₱2,570,079**	₱2,608,168	**₱2,560,984**	₱2,626,010
Investment properties (Note 14)	**213,120**	222,878	**201,159**	206,438
Other assets (Note 16)	**335,981**	494,254	**335,981**	494,254
	3,119,180	3,325,300	**3,098,124**	3,326,702
Transition adjustments (Note 2):				
Loans and receivables	**235,832**	–	**179,355**	–
Investment securities at FVTOCI	**346**	–	**346**	–
Investment securities at amortized cost	**9,005**	–	**9,005**	–
Interbank loans receivable	**12**	–	**12**	–
	245,195		**188,718**	
Balances at January 1, after transition adjustments:				
Loans and receivables	**2,805,911**	2,608,168	**2,740,339**	2,626,010
Investment securities at FVTOCI	**346**	–	**346**	–
Investment securities at amortized cost	**9,005**	–	**9,005**	–
Interbank loans receivable	**12**	–	**12**	–
Investment properties (Note 14)	**213,120**	222,878	**201,159**	206,438
Other assets (Note 16)	**335,981**	494,254	**335,981**	494,254
	3,364,375	3,325,300	**3,286,842**	3,326,702
Provision for credit and impairment losses	**267,736**	338,595	**209,914**	288,811
Revaluation of FCDU loans and other assets	**4,225**	(564)	**4,225**	(564)
Accounts written-off and others	**(598,873)**	(534,293)	**(504,321)**	(511,546)
Reversal of allowance on disposals of investment properties (Note 14)	**(2,490)**	(9,858)	**(3,586)**	(5,279)
	(329,402)	(206,120)	**(293,768)**	(228,578)

(Forward)

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Balance at December 31:				
Loans and receivables (Note 12)	**₱2,470,886**	₱2,570,079	**₱2,442,247**	₱2,560,984
Investment securities at FVTOCI	**6,076**	–	**6,076**	–
Investment securities at amortized cost	**7,485**	–	**7,485**	–
Interbank loans receivable	**1**	–	**1**	–
Investment properties (Note 14)	**214,446**	213,120	**201,186**	201,159
Other assets (Note 16)	**336,079**	335,981	**336,079**	335,981
	₱3,034,973	₱3,119,180	**₱2,993,074**	₱3,098,124

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

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Financial assets and other credit-related exposures:						
Loans and receivables	**₱259,721**	₱399,885	₱477,968	**₱202,102**	₱350,201	₱396,223
Investment securities at FVTOCI	**5,730**	–	–	**5,730**	–	–
Investment securities at amortized cost	**(1,520)**	–	–	**(1,520)**	–	–
Interbank loans receivable	**(11)**	–	–	**(11)**	–	–
	263,920	399,885	477,968	**206,301**	350,201	396,223
Non-financial assets:						
Investment properties	**3,816**	100	(4,514)	**3,613**	–	(4,642)
Other assets (Note 16)	**–**	(61,390)	–	**–**	(61,390)	–
	3,816	(61,290)	(4,514)	**3,613**	(61,390)	(4,642)
	₱267,736	₱338,595	₱473,454	**₱209,914**	₱288,811	₱391,581

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. As of December 31, 2017, a reconciliation of the allowance for credit losses by class of loans and receivables follows:

	Consolidated			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,526,640	₱596,361	₱485,167	₱2,608,168
Provisions during the year	163,364	228,686	7,835	399,885
Revaluation	(573)	–	2	(571)
Others**	(310,719)	(61,634)	(65,050)	(437,403)
Balance at December 31	₱1,378,712	₱763,413	₱427,954	₱2,570,079
Individual impairment	₱1,097,109	₱25,540	₱360,188	₱1,482,837
Collective impairment	281,603	737,873	67,766	1,087,242
	₱1,378,712	₱763,413	₱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.*

	Parent Company			
	Corporate	Consumer	Others*	Total
Balance at January 1	₱1,526,640	₱604,015	₱495,355	₱2,626,010
Provisions (reversals) during the year	163,364	191,626	(4,789)	350,201
Revaluation	(573)	–	2	(571)
Others**	(310,719)	(38,525)	(65,412)	(414,656)
Balance at December 31	₱1,378,712	₱757,116	₱425,156	₱2,560,984
Individual impairment	₱1,097,109	₱–	₱360,188	₱1,457,297
Collective impairment	281,603	757,116	64,968	1,103,687
	₱1,378,712	₱757,116	₱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.*

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%. On February 15, 2018, the Monetary Board of the BSP issued BSP Circular No. 997, decreasing the statutory and liquidity reserve requirement by 1% from 20% to 19% effective March 2, 2018. On May 4, 2018, the Monetary Board of the BSP issued BSP Circular No. 1004, further decreasing the statutory and liquidity reserve requirement by 1% from 19% to 18% effective June 1, 2018. LTNCDs are subject to 7% reserve requirement.

As of December 31, 2018 and 2017, Due from BSP amounting to ₱10.46 billion and ₱11.78 billion, respectively, were set aside as reserves for deposit liabilities. As of December 31, 2018 and 2017, the Group is in compliance with the above regulations.

On October 8, 2018, the Parent Company issued ₱2.90 billion worth of LTNCDs with a tenor of 5 years and 6 months. The LTNCDs will mature on April 8, 2024 and have fixed interest rate of 5.625% per annum, payable quarterly in arrears on October 8, January 8, April 8 and July 8 of each year, commencing on January 8, 2019. The LTNCDs are listed in the trading platform of the Philippine Dealing & Exchange Corp. for secondary market trading.

Interest expense on deposit liabilities consists of:

	Consolidated			**Parent Company**		
	2018	2017	2016	**2018**	2017	2016
Demand	**₱61,035**	₱47,023	₱36,531	**₱61,035**	₱47,023	₱36,873
Savings	**11,525**	11,402	6,987	**8,939**	7,841	5,545
Time	**1,106,992**	776,160	817,883	**1,052,469**	718,710	757,234
LTNCD	**39,376**	–	–	**39,376**	–	–
	₱1,218,928	₱834,585	₱861,401	**₱1,161,819**	₱773,574	₱799,652

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.03% to 7.25% in 2018, and 0.10% to 3.50% in 2017 and 2016, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.03% to 3.00%, 0.13% to 3.00%, and 0.10% to 3.00% in 2018, 2017 and 2016, respectively.

19. **Bills Payable**

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

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Private firms and individuals	**₱11,746,691**	₱7,802,790	**₱11,746,691**	₱7,802,790
Banks and other financial institutions	**5,912,392**	4,764,609	**5,844,593**	4,764,609
	₱17,659,083	₱12,567,399	**₱17,591,284**	₱12,567,399

As of December 31, 2018 and 2017, ₱10.72 billion and ₱9.00 billion of the bills payable, respectively are collateralized by investment in government securities. Details of the securities pledged are as follows:

	2018			2017		
	Face value	**Carrying amount**	**Fair value**	Face value	Carrying amount	Fair value
FVTPL	**₱350,000**	**₱332,022**	**₱332,022**	₱1,000,000	₱996,601	₱996,601
FVTOCI	**2,983,442**	**3,168,094**	**3,168,094**	–	–	–
Investment securities at amortized cost	**7,304,331**	**8,892,862**	**6,883,670**	9,004,185	11,389,992	9,222,134
	₱10,637,773	**₱12,392,978**	**₱10,383,786**	₱10,004,185	₱12,386,593	₱10,218,735

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Borrowed funds	**₱471,448**	₱223,618	₱170,735	**₱467,504**	₱222,078	₱170,101
Net interest cost on retirement liability (Note 27)	**958**	1,549	6,650	**1,181**	2,951	6,603
	₱472,406	₱225,167	₱177,385	**₱468,685**	₱225,029	₱176,704

The Group has no dollar interbank borrowings as of December 31, 2018 and 2017.

The Parent Company did not avail of peso and dollar rediscounting facilities in 2018 and 2017.

Borrowings from private firms and individuals represent deposit substitutes with maturities of 1 to 216 days and bear annual interest rates ranging from 0.10% to 7.25%, 0.50% to 3.50%, and 0.41% to 2.90% in 2018, 2017 and 2016, respectively.

As of December 31, 2018 and 2017, Due from BSP amounting to ₱2.02 billion and ₱1.60 million, respectively, were set aside as reserves for deposit substitutes.

20. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Financial liabilities				
Accrued interest payable	**₱270,932**	₱94,553	**₱252,680**	₱83,285
Accrued other expenses	**334,836**	280,357	**314,139**	268,886
	605,768	374,910	**566,819**	352,171
Non-financial liabilities				
Retirement liability (Note 27)	–	21,169	–	20,354
Accrued taxes and licenses	**79,241**	25,587	**75,878**	19,246
	79,241	46,756	**75,878**	39,600
	₱685,009	₱421,666	**₱642,697**	₱391,771

21. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Financial liabilities				
Accounts payable	**₱248,010**	₱317,211	**₱232,393**	₱303,284
Refundable security deposits	**177,590**	167,355	**177,590**	167,355
Due to the Treasurer of the Philippines	**32,151**	31,616	**31,461**	30,926
	457,751	516,182	**441,444**	501,565
Non-financial liabilities				
Deferred credits	**218,106**	167,305	**218,047**	167,305
Withholding taxes payable	**50,831**	38,812	**49,828**	36,817
Miscellaneous	**110,110**	108,902	**107,286**	102,742
	379,047	315,019	**375,161**	306,864
	₱836,798	₱831,201	**₱816,605**	₱808,429

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					
	2018			2017 (As restated)		
	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	**₱1,389,869**	**₱–**	**₱1,389,869**	₱974,207	₱–	₱974,207
Due from BSP	**15,224,382**	**–**	**15,224,382**	15,340,711	–	15,340,711
Due from other banks	**379,723**	**–**	**379,723**	1,166,063	–	1,166,063
Interbank loans receivable (Note 8)	**206,965**	**–**	**206,965**	534,925	–	534,925
Financial assets at FVTPL (Note 9)	**893,216**	**–**	**893,216**	2,740,471	–	2,740,471

(Forward)

	Consolidated					
	2018			2017 (As restated)		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial assets at FVTOCI (Note 10)	**₱6,693,111**	**₱105,119**	**₱6,798,230**	₱–	₱90,639	₱90,639
Investment securities at amortized cost (Note 11)	**209,119**	**13,139,965**	**13,349,084**	407,852	15,009,349	15,417,201
Loans and receivables (Note 12):						
Receivables from customers	**28,678,923**	**31,197,609**	**59,876,532**	28,873,686	23,186,354	52,060,040
Unquoted debt securities	**–**	**1,404,422**	**1,404,422**	–	2,811,827	2,811,827
Accrued interest receivable	**553,693**	**355,786**	**909,479**	435,476	379,120	814,596
Accounts receivable	**333,298**	**–**	**333,298**	251,137	–	251,137
Sales contracts receivable	**49,194**	**127,194**	**176,388**	157,863	10,230	168,093
Other assets (Note 16):						
Refundable security deposits	**–**	**33,022**	**33,022**	1,604	27,810	29,414
RCOCI	**5,434**	**–**	**5,434**	10,400	–	10,400
	54,616,927	**46,363,117**	**100,980,044**	50,894,395	41,515,329	92,409,724
Non-financial assets - at gross						
Investments in subsidiaries and an associate (Note 7)	**–**	**13,318**	**13,318**	–	13,068	13,068
Property and equipment (Note 13)	**–**	**2,702,682**	**2,702,682**	–	2,606,368	2,606,368
Investment properties (Note 14):						
Condominium units for Lease	**–**	**2,561,602**	**2,561,602**	–	2,561,179	2,561,179
Foreclosed properties	**–**	**1,132,167**	**1,132,167**	–	1,065,178	1,065,178
Office units for lease	**–**	**39,274**	**39,274**	–	39,274	39,274
Goodwill (Note 15)	**–**	**182,227**	**182,227**	–	182,227	182,227
Intangible assets (Note 15)	**–**	**703,775**	**703,775**	–	744,179	744,179
Deferred tax assets (Note 30)	**–**	**74,487**	**74,487**	–	55,942	55,942
Other assets (Note 16)	**245,548**	**889,641**	**1,135,189**	515,166	491,497	1,006,663
	245,548	**8,299,173**	**8,544,721**	515,166	7,758,912	8,274,078
	₱54,862,475	**₱54,662,290**	**₱109,524,765**	₱51,409,561	₱49,274,241	₱100,683,802
Less:						
Unearned interest and discounts (Note 12)			**(150,027)**			(182,647)
Accumulated depreciation and amortization (Notes 13, 14 and 16)			**(2,596,519)**			(2,338,325)
Allowance for credit and impairment losses (Notes 12, 16 and 17)			**(3,028,897)**			(3,119,180)
Total			**₱103,749,322**			₱95,043,650
Financial liabilities						
Deposit liabilities:						
Demand	**₱20,257,138**	**₱–**	**₱20,257,138**	₱19,400,193	₱–	₱19,400,193
Savings	**7,810,642**	**–**	**7,810,642**	8,329,526	–	8,329,526
Time	**39,906,072**	**3,152,149**	**43,058,221**	38,153,187	4,852,911	43,006,098
LTNCD	**–**	**2,902,730**	**2,902,730**	–	–	–
Bills payable (Note 19)	**17,612,860**	**46,223**	**17,659,083**	12,567,399	–	12,567,399
Outstanding acceptances	**46,344**	**–**	**46,344**	64,085	–	64,085
Manager's checks	**97,447**	**–**	**97,447**	427,405	–	427,405
Accrued interest payable (Note 20)	**270,932**	**–**	**270,932**	94,553	–	94,553
Accrued other expenses (Note 20)	**334,836**	**–**	**334,836**	271,910	8,447	280,357
Other liabilities (Note 21):		**–**				
Accounts payable	**248,010**	**–**	**248,010**	317,211	–	317,211
Refundable security deposits	**35,675**	**141,915**	**177,590**	51,218	116,137	167,355
Due to the Treasurer of the Philippines	**32,151**	**–**	**32,151**	31,616	–	31,616
	86,652,107	**6,243,017**	**92,895,124**	79,708,303	4,977,495	84,685,798

(Forward)

	Consolidated					
	2018			2017 (As restated)		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Non-financial liabilities						
Deferred tax liabilities (Note 30)	₱–	₱66,261	₱66,261	₱–	₱39,448	₱39,448
Retirement liability (Notes 20 and 27)	–	–	–	–	21,169	21,169
Accrued taxes and licenses (Note 20)	79,241	–	79,241	25,587	–	25,587
Income tax payable	3,735	–	3,735	13,458	–	13,458
Other liabilities (Note 21):						
Deferred credits	101,463	116,643	218,106	86,050	81,255	167,305
Withholding taxes payable	50,831	–	50,831	38,812	–	38,812
Miscellaneous	56,615	53,495	110,110	47,804	61,098	108,902
	291,885	236,399	528,284	211,711	202,970	414,681
	₱86,943,992	₱6,479,416	₱93,423,408	₱79,920,014	₱5,180,465	₱85,100,479

	Parent Company					
	2018			2017 (As restated)		
	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	₱1,357,609	₱–	₱1,357,609	₱941,823	₱–	₱941,823
Due from BSP	15,168,302	–	15,168,302	15,279,084	–	15,279,084
Due from other banks	228,578	–	228,578	965,820	–	965,820
Interbank loans receivable (Note 8)	206,965	–	206,965	534,925	–	534,925
Financial assets at FVTPL (Note 9)	893,216	–	893,216	2,740,471	–	2,740,471
Financial assets at FVTOCI (Note 10)	6,693,111	105,119	6,798,230	–	90,639	90,639
Investment securities at amortized cost (Note 11)	209,119	13,139,965	13,349,084	407,852	15,009,349	15,417,201
Loans and receivables (Note 12):						
Receivables from customers	28,630,047	29,385,663	58,015,710	26,031,671	24,273,846	50,305,517
Unquoted debt securities	–	1,404,422	1,404,422	–	2,811,827	2,811,827
Accrued interest receivable	527,125	355,786	882,911	435,035	346,459	781,494
Accounts receivable	313,119		313,119	234,657	–	234,657
Sales contracts receivable	46,583	78,543	125,126	33,107	122,226	155,333
Other assets (Note 16):						
Refundable security deposits	–	30,877	30,877	–	27,810	27,810
RCOCI	5,434	–	5,434	10,400	–	10,400
	54,279,208	44,500,375	98,779,583	47,614,845	42,682,156	90,297,001
Non-financial assets - at gross						
Investments in subsidiaries and an associate (Note 7)	–	990,226	990,226	–	1,007,030	1,007,030
Property and equipment (Note 13)	–	2,527,225	2,527,225	–	2,443,522	2,443,522
Investment properties (Note 14):						
Condominium units for lease	–	2,561,602	2,561,602	–	2,561,179	2,561,179
Foreclosed assets	–	949,232	949,232	–	855,519	855,519
Office units for lease	–	39,274	39,274	–	39,274	39,274
Intangible assets (Note 15)	–	439,983	439,983	–	480,433	480,433
Deferred tax assets (Note 30)	–	40,808	40,808	–	67,638	67,638
Other assets (Note 16)	234,066	879,330	1,113,396	173,184	820,739	993,923
	234,066	8,427,680	8,661,746	173,184	8,275,334	8,448,518
	₱54,513,274	₱52,928,055	107,441,329	₱47,788,029	₱50,957,490	98,745,519
Less:						
Unearned interest and discounts (Note 12)			(77,862)			(107,845)

(Forward)

	Parent Company					
	2018			2017 (As restated)		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Accumulated depreciation and amortization (Notes 13, 14 and 16)			**(₱2,509,664)**			(₱2,267,937)
Allowance for credit and impairment losses (Notes 12, 14, 16 and 17)			**(2,986,998)**			(3,098,124)
Total			**₱101,866,805**			₱93,271,613
Financial liabilities						
Deposit liabilities:						
Demand	**₱20,262,969**	**₱–**	**₱20,262,969**	₱19,480,422	₱–	₱19,480,422
Savings	**7,262,325**	**–**	**7,262,325**	7,790,785	–	7,790,785
Time	**38,964,759**	**2,942,544**	**41,907,303**	37,460,353	4,313,454	41,773,807
LTNCD	**–**	**2,902,730**	**2,902,730**	–	–	–
Bills payable (Note 19)	**17,591,284**	**–**	**17,591,284**	12,567,399	–	12,567,399
Outstanding acceptances	**46,344**	**–**	**46,344**	64,085	–	64,085
Manager's checks	**97,447**	**–**	**97,447**	427,405	–	427,405
Accrued interest payable (Note 20)	**252,680**	**–**	**252,680**	83,285	–	83,285
Accrued other expenses (Note 20)	**314,139**	**–**	**314,139**	268,886	–	268,886
Other liabilities (Note 21):						
Accounts payable	**₱232,393**	**–**	**232,393**	303,284	–	303,284
Refundable security deposits	**35,675**	**141,915**	**177,590**	52,284	115,071	167,355
Due to the Treasurer of the Philippines	**31,461**	**–**	**31,461**	30,926	–	30,926
	85,091,476	**5,987,189**	**91,078,665**	78,529,114	4,428,525	82,957,639
Non-financial liabilities						
Retirement liability (Notes 20 and 27)	**–**	**–**	**–**	–	20,354	20,354
Accrued taxes and licenses (Note 20)	**75,878**	**–**	**75,878**	19,246	–	19,246
Income tax payable	**1,791**	**–**	**1,791**	14,945	–	14,945
Other liabilities (Note 21):		**–**				
Deferred credits	**101,463**	**116,584**	**218,047**	86,049	81,256	167,305
Withholding taxes payable	**49,828**	**–**	**49,828**	36,817	–	36,817
Miscellaneous	**54,313**	**52,973**	**107,286**	42,269	60,473	102,742
	283,273	**169,557**	**452,830**	199,326	162,083	361,409
	₱85,374,749	**₱6,156,746**	**₱91,531,495**	₱78,728,440	₱4,590,608	₱83,319,048

23. Equity

Common Stock

Details and movements of common stock follow:

	Shares		Amount	
	2018	2017	**2018**	2017
Common - ₱25 par value				
Authorized	**760,000**	760,000		
Issued and outstanding				
Balance at January 1	**480,645**	299,565	**₱12,016,129**	₱7,489,114
Issuance during the year (Note 1)	**–**	181,080	**–**	4,527,015
Balance at December 31	**480,645**	480,645	**₱12,016,129**	₱12,016,129

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 405 and 398 as of December 31, 2018 and 2017, 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). As of December 31, 2017, details of the account follow:

Subscribed common stock	
Balance at January 1	₱5,975,660
Issuance of common stock (Note 1)	(5,975,660)
	–
Less: Subscription receivable	
Balance at January 1	1,394,320
Collections during the year	(1,394,320)
	–
Balance at December 31	₱–

Quasi-reorganization

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

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

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

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

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

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

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

Surplus Reserves
As of December 31, 2018 and 2017, surplus reserves consist of reserve for trust business, and self-insurance amounting to ₱105.89 million and ₱105.82 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
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, accumulated net earnings of the subsidiaries and an associate amounting to ₱82.41 million and ₱101.36 million as of December 31, 2018 and 2017, respectively, that were closed out to 'Deficit' 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 as discussed below. The Parent Company has complied in full with all its regulatory capital requirements.

BSP approvals
On December 14, 2012, the BSP, in its Resolution No. 2088, approved the request of the Parent Company to include the ₱1.92 billion appraisal increment resulting from the revaluation of PBCom Tower as part of unimpaired and qualifying capital in computing for net worth and capital adequacy ratio. As discussed in Note 2, effective January 1, 2018, the Group and the Parent Company changed their method of accounting for Investment Properties and Land from the fair value model and revaluation model, respectively, to the cost model, and restated the comparative information in its audited financial statements. As approved by the BSP, however, the Parent Company continues to include the above revaluation increment for purposes of regulatory unimpaired and qualifying capital in its computation of net worth and capital adequacy ratio. As of December 31, 2018, the revaluation increment pertaining to PBCom Tower amounted to ₱1.44 billion.

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.

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 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 2018 and 2017, 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**	
	2018	2017	**2018**	2017
CET-1 Capital	**₱10,454**	₱10,334	**₱10,537**	₱10,413
Less: Regulatory Adjustments to CET-1	**(960)**	(1,002)	**(1,441)**	(1,452)
	9,494	9,332	**9,096**	8,961
Additional Tier 1 Capital	**–**	–	**–**	–
Less: Regulatory Adjustments to AT-1	**–**	–	**–**	–
	–	–	**–**	–
Total Tier 1 Capital	**9,494**	9,332	**9,096**	8,961
Tier 2 Capital	**2,165**	2,094	**2,106**	2,062
Less: Regulatory Adjustments to Tier 2 Capital	**–**	–	**–**	–
Total Tier 2 Capital	**2,165**	2,094	**2,106**	2,062
Total Qualifying Capital	**₱11,659**	₱11,426	**₱11,202**	₱11,023

The Group's and the Parent Company's RBCAR as reported to the BSP as of December 31, 2018 and 2017 are shown in the table below (amounts in millions):

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
CET-1 Capital:				
Paid-up common stock	**₱12,016**	₱12,016	**₱12,016**	₱12,016
Additional paid-in capital	**2,262**	2,262	**2,262**	2,262
Retained earnings	**(4,097)**	(4,159)	**(4,014)**	(4,091)
Undivided profits	**343**	286	**343**	286
Net unrealized gains or losses on AFS-FVTOCI	**(6)**	34	**(6)**	34
Cumulative foreign currency translation	**(2)**	(1)	**(2)**	(1)
OCI	**(62)**	(93)	**(62)**	(93)
Minority interest in subsidiary banks	**–**	(11)	**–**	–
	10,454	10,334	**10,537**	10,413
Less: Regulatory Adjustments to CET-1				
Outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	**1**	–	**1**	2
Goodwill	**256**	256	**102**	102
Other intangible assets	**678**	719	**313**	353
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings	**–**	–	**1,000**	968
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies	**12**	14	**12**	14
Significant minority investments	**13**	13	**13**	13
	960	1,002	**1,441**	1,452
Tier 1 Capital				
Additional Tier 1 Capital	**–**	–	**–**	–
Less: Regulatory Adjustments to AT-1	**–**	–	**–**	–
	–	–	**–**	–
Total Tier 1 Capital	**9,494**	9,332	**9,096**	8,961
Appraisal increment reserve	**1,625**	1,611	**1,611**	1,597
General loan loss provision	**540**	483	**495**	465
	2,165	2,094	**2,106**	2,062
Less: Regulatory Adjustments to Tier 2 Capital	**–**	–	**–**	–
Total Tier 2 Capital	**2,165**	2,094	**2,106**	2,062
Total Qualifying Capital	**₱11,659**	₱11,426	**₱11,202**	₱11,023
Credit risk-weighted assets	**₱72,848**	₱65,022	**₱70,603**	₱62,945
Market risk-weighted assets	**384**	768	**384**	768
Operational risk-weighted assets	**6,861**	6,289	**6,279**	5,851
Total Risk Weighted Assets	**₱80,093**	₱72,079	**₱77,266**	₱69,564
CET 1 Capital Ratio	**11.85%**	12.95%	**11.77%**	12.88%
Tier 1 Capital Ratio	**11.85%**	12.95%	**11.77%**	12.88%
Total Capital Ratio	**14.56%**	15.85%	**14.50%**	15.85%

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 included the articulation of the Parent Company's Risk Appetite and the corresponding limit on each material risk which was deliberated upon by the ICAAP Steering Committee, ROC and endorsed to the BOD for approval.

Salient points of the 2019 ICAAP Document:

- The Parent Company's total Qualifying Capital for December 31, 2018 fully covers the capital requirements for risks under BSP Circular Nos. 538 and 639 (Pillar 1 and Pillar 2 Risks).
- The Parent Company's resulting operating environment and risk requirements from 2019 to 2021 will be guided by the Capital Development and 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 3-year strategic growth within the BOD's desired appetite for capital adequacy. Realization of the capital plan will enable the Parent Company to have sufficient RBCAR, and even projecting excess capital in 2019 to 2021.

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:

	2018	2017
Trust department accounts (Note 25)	**₱5,425,824**	₱5,267,279
Standby LC	**517,012**	2,074,784
Spot exchange:		
Bought	**630,800**	274,615
Sold	**630,508**	574,195
Usance LC outstanding	**128,412**	86,900
Outstanding shipping guarantees	**534,542**	944,839
Sight LC outstanding	**654,229**	401,085
Deficiency claims receivable	**–**	27,498
Outward bills for collection	**16,977**	26,772
Currency forwards:		
Bought	**203,574**	48,688
Sold	**204,301**	49,665
Inward bills for collection	**284,355**	51,995
Items held for safekeeping	**98**	157
Items held as collateral	**11**	9
Other contingencies	**89,852**	98,691

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.

As discussed in Note 1, the adoption of the ECL model of PFRS 9 did not have a material impact on the Group's loan commitments and financial guarantee contracts as of January 1, 2018 and for the year ended December 31, 2018.

Derivative Financial Instruments
As of December 31, 2018, the Parent Company has outstanding buy US dollar currency forwards with aggregate notional amount of US$3.872 million, terms of 6 days, and weighted average forward rate of ₱52.58.

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.

In 2018, 2017 and 2016, total gain (loss) on currency forwards included under 'Trading and securities gain (loss) - others' in the statements of income amounted to ₱0.27 million, (₱3.23 million), and ₱7.68 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 ₱5.43 billion and ₱5.27 billion as of December 31, 2018 and 2017, respectively (see Note 24).

As of December 31, 2018 and 2017, government securities (included under 'Investment securities at amortized cost') owned by the Parent Company with total face value of ₱60.00 million and ₱70.00 million, respectively, 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 ₱15.71 million, ₱15.40 million, and ₱16.86 million in 2018, 2017 and 2016, respectively.

26. Income on Investment Securities

Interest income on investment securities follows:

	2018	2017	2016
Investment securities at amortized cost	**₱540,129**	₱536,988	₱593,571
Financial assets at FVTOCI	**168,879**	–	–
Financial assets at FVTPL	**15,810**	153,670	82,445
	₱724,818	₱690,658	₱676,016

In 2018, 2017 and 2016, the Parent Company's peso-denominated investment securities earned annual interest rates ranging from 2.13% to 8.13%, 2.13% to 8.00%, and 2.13% to 8.13%, respectively, while dollar-denominated investment securities earned annual interest rates ranging from 2.95% to 10.63%, 1.87% to 10.63%, and 2.63% to 10.63%, respectively.

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

	2018	2017	2016
Financial assets at FVTPL	**(₱9,454)**	(₱10,014)	₱40,656
Financial assets at FVTOCI	**32,522**	–	–
Derivatives (Note 24)	**268**	(3,229)	7,683
	₱23,336	(₱13,243)	₱48,339

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.

PRBI

PRBI 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 PRBI’s officers and regular employees and provides benefits that are based on employee age, years of service and final compensation. PRBI’s retirement plans provide retirement benefits equal to 100% of the final regular monthly salary for every year of service.

In 2017, as part of the three-way merger, the retirement plans of RBNI and RBKI were transferred to the PRBI. In April 2018, however, RBNI and RBKI employees were given two options by PRBI to either: (1) cash-in their retirement benefits based on years of service; or (2) continue length of service under their existing retirement plans.

On May 31, 2018, all RBNI and RBKI employees opted to cash-in their retirement benefits and enrolled under PRBI’s 2012 plan. In July 2018, the BOD of PRBI approved the release of their retirement benefits. Consequently, on August 3, 2018, all RBNI and RBKI employees signed an Affidavit of Waiver and Quitclaim releasing and discharging any claims and/or liabilities from their previous employers (that is, RBNI and RBKI) that arose out of their employment of the said banks. The retirement plan of RBNI was subsequently terminated and the Bank recognized a gain on settlement of ₱4.69 million.

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

The latest actuarial valuation studies of the defined benefit retirement plans of the Group were made as of December 31, 2018.

The following table shows the actuarial valuation results for the Group and the Parent Company as of December 31, 2018 and 2017:

	2018		2017	
	Fair Value of Plan Assets	**Present Value of Obligation**	Fair Value of Plan Assets	Present Value of Obligation
Parent Company	**₱456,075**	**₱381,725**	₱457,674	₱478,028
PRBI	**14,852**	**7,808**	21,251	22,066
	₱470,927	**₱389,533**	₱478,925	₱500,094

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

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Retirement asset* (Note 16)	**₱81,394**	₱–	**₱74,350**	₱–
Retirement liability** (Note 20)	**–**	21,169	**–**	20,354
Net retirement asset (liability)	**₱81,394**	(₱21,169)	**₱74,350**	(₱20,354)

** 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, 2018 and 2017 are as follows:

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Balance at January 1	**₱500,094**	₱478,486	**₱478,028**	₱452,927
Current service cost	**62,245**	68,081	**59,832**	64,837
Interest cost	**28,323**	27,015	**27,726**	25,816
Remeasurement gains:				
Actuarial gains arising from deviations of experience from assumptions	**(52,272)**	(26,373)	**(51,818)**	(25,087)
Actuarial gains arising from changes in financial assumptions	**(81,386)**	(7,502)	**(77,910)**	(5,252)
Benefits paid	**(55,816)**	(39,613)	**(54,133)**	(35,213)
Settlements	**(11,655)**	–	**–**	–
Balance at December 31	**₱389,533**	₱500,094	**₱381,725**	₱478,028

Changes in the fair value of the plan assets as of December 31, 2018 and 2017 are as follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Balance at January 1	**₱478,925**	₱423,511	**₱457,674**	₱401,148
Contributions	**63,320**	68,849	**61,013**	67,789
Interest income	**27,365**	25,466	**26,545**	22,865
Return on plan assets (excluding interest income)	**(35,903)**	712	**(35,024)**	1,085
Benefits paid	**(55,816)**	(39,613)	**(54,133)**	(35,213)
Settlements	**(6,964)**	–	**–**	–
Balance at December 31	**₱470,927**	₱478,925	**₱456,075**	₱457,674

The fair values of plan assets by class as of December 31, 2018 and 2017 are as follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Cash and cash equivalents	**₱121,495**	₱91,390	**₱118,096**	₱88,567
Debt instruments:				
Agricultural	**100,713**	–	**100,713**	–
Real estate	**56,015**	19,211	**55,139**	18,690
Philippine government	**47,115**	236,920	**46,732**	229,257
Industrial	**44,357**	–	**44,357**	–
Holding firms	**8,234**	8,595	**7,730**	8,081
Financial intermediaries	**1,921**	–	**1,921**	–
Power, electricity and water distribution	**–**	13,938	**–**	13,938
Equity instruments:				
Real estate	**12,015**	30,192	**10,716**	29,425
Holding firms	**40,401**	27,927	**37,164**	23,065
Transportation, storage and communication	**8,345**	12,412	**8,345**	12,412
Financial intermediaries	**8,773**	12,243	**8,773**	12,243
Wholesale and retail trade	**6,467**	7,520	**6,467**	7,520
Power, electricity and water distribution	**5,151**	7,446	**5,151**	7,446
Manufacturing	**997**	1,580	**–**	–
Others	**6,475**	9,178	**4,850**	5,908
Other assets and liabilities	**2,453**	373	**(79)**	1,122
	₱470,927	₱478,925	**₱456,075**	₱457,674

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 ₱74.21 million and ₱72.26 million, respectively, to the defined retirement benefit plans in 2019.

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		PRBI	
	2018	2017	**2018**	2017
Discount rate:				
At January 1	**5.80%**	5.70%	**4.80% - 5.60%**	4.78% - 4.87%
At December 31	**7.60%**	5.80%	**5.60% - 7.80%**	5.59% - 5.60%
Salary increase rate	**7.00%**	7.00%	**5.00%**	5.00%
Average remaining working life	**13**	13	**15**	13.5

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption as of December 31, 2018 and 2017, 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	
	2018	2017	**2018**	2017
Increase in discount rate of 0.50%	**(₱18,878)**	(₱26,278)	**(₱17,947)**	(₱24,963)
Decrease in discount rate of 0.50%	**20,540**	28,638	**19,412**	27,184
Increase in salary increase rate of 0.50%	**19,347**	26,659	**18,244**	25,283
Decrease in salary increase rate of 0.50%	**(17,962)**	(24,746)	**(17,037)**	(23,489)

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		
	2018	2017	2016	**2018**	2017	2016
Actuarial gains on benefit obligation	**₱133,658**	₱33,875	₱93,494	**₱129,728**	₱30,339	₱94,841
Return on plan assets (excluding interest income)	**(35,903)**	712	(16,945)	**(35,024)**	1,085	(17,146)
Remeasurement gains in OCI	**₱97,755**	₱34,587	₱76,549	**₱94,704**	₱31,424	₱77,695

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

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Current service cost*	**₱62,245**	₱68,081	₱78,320	**₱59,832**	₱64,837	₱75,524
Net interest expense (Note 19)	**958**	1,549	6,650	**1,181**	2,951	6,603
Retirement cost	**₱63,203**	₱69,630	₱84,970	**₱61,013**	₱67,788	₱82,127

**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, 2018 and 2017:

	Consolidated	
Plan Year	**2018**	2017
Less than five years	**₱176,247**	₱198,520
More than five to ten years	**290,082**	297,732
Ten years and above	**3,406,106**	3,747,020
	₱3,872,435	₱4,243,272

	Parent Company	
Plan Year	**2018**	2017
Less than five years	**₱174,592**	₱192,722
More than five to ten years	**284,555**	288,965
Ten years and above	**3,186,478**	3,513,718
	₱3,645,625	₱3,995,405

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 September 21, 2018, with an effectivity date until December 31, 2020. 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 recognized under 'Compensation and fringe benefits' in the statements of income amounted to ₱95.95 million, ₱103.88 million, and ₱124.66 million in 2018, 2017 and 2016, respectively.

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

Contributions paid and accrued by PRBI to the funds recognized in the statements of income under 'Compensation and fringe benefits' amounted to ₱1.20 million in 2018 and 2017, and ₱2.45 million in 2016.

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 ₱191.02 million, ₱174.35 million, and ₱170.28 million in 2018, 2017 and 2016, respectively. The Parent Company's rent expense amounted to ₱181.69 million, ₱167.35 million, and ₱170.28 million in 2018, 2017 and 2016, respectively.

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

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Within one year	**₱145,730**	₱140,092	**₱138,051**	₱134,769
Beyond one year but not more than five years	**272,830**	141,987	**256,686**	128,558
Beyond five years	**3,663**	–	**3,423**	–
	₱422,223	₱282,079	**₱398,160**	₱263,327

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 ₱613.63 million, ₱548.76 million, and ₱454.49 million, in 2018, 2017 and 2016, respectively.

The Group’s and the Parent Company’s future minimum rentals receivable under noncancellable operating leases follow:

	2018	2017
Within one year	**₱642,135**	₱467,338
Beyond one year but not more than five years	**1,530,297**	1,011,464
Beyond five years	**58,702**	–
	₱2,231,134	₱1,478,802

29. **Miscellaneous Expenses**

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Information technology	**₱92,332**	₱81,238	₱85,433	**₱84,157**	₱73,194	₱78,954
Transaction dues	**37,606**	35,737	34,682	**37,043**	35,129	34,108
Fines, penalties and other charges	**35,346**	31,251	32,549	**35,087**	31,099	32,487
Litigation and assets acquired - related expenses	**23,737**	29,731	13,781	**22,184**	25,021	12,845
Stationery and supplies	**21,482**	16,289	20,217	**16,550**	12,697	17,027
Travel	**19,522**	12,602	11,375	**9,666**	5,330	6,127
Fuel and lubricants	**16,121**	16,354	15,893	**13,273**	14,080	13,863
Brokerage fees	**10,201**	19,790	20,638	**10,201**	19,790	20,638
Advertising	**9,276**	7,170	8,977	**7,393**	5,744	7,467
Freight	**7,266**	7,604	4,167	**7,224**	7,589	4,139
Others	**104,358**	112,173	76,001	**95,269**	102,280	61,888
	₱377,247	₱369,939	₱323,713	**₱338,047**	₱331,953	₱289,543

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, Net Operating Loss Carryover (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 15.00% and 7.50% final tax in 2018 and 2017, respectively. 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. Total deposits maintained by the related party retirement plans with the Parent company amounted to ₱51.40 million and ₱145.68 million as of December 31, 2018 and 2017, respectively.

Provision for income tax consists of:

	Consolidated			**Parent Company**		
	2018	2017 (As restated)	2016 (As restated)	**2018**	2017 (As restated)	2016 (As restated)
Current:						
Final	**₱150,932**	₱139,589	₱142,951	**₱150,912**	₱139,090	₱142,443
RCIT	**66,947**	18,990	101,070	**59,940**	400	69,412
MCIT	**–**	56,758	–	**–**	56,758	–
	217,879	215,337	244,021	**210,852**	196,248	211,855
Deferred	**9,850**	1,010	(92,026)	**15,429**	7,800	(81,258)
	₱227,729	₱216,347	₱151,995	**₱226,281**	₱204,048	₱130,597

Components of deferred tax assets and liabilities follow:

	Consolidated		Parent Company	
	2018	2017 (As restated)	**2018**	2017 (As restated)
Deferred tax assets:				
Allowance for ECL/credit and impairment losses	**₱551,257**	₱515,750	**₱472,457**	₱472,457
Accrued expenses	**1,677**	715	**–**	–
Unearned discounts and capitalized interest	**295**	22,062	**–**	–
Unamortized past service cost	**773**	902	**–**	–
Excess of MCIT over RCIT	**–**	12,182	**–**	12,163
	₱554,002	₱551,611	**₱472,457**	₱484,620
Deferred tax liabilities:				
Revaluation increment credited to surplus free	**₱399,979**	₱399,979	**₱399,979**	₱399,979
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	**28,200**	28,216	**–**	–
Remeasurement gain on retirement liability	**23,524**	1,191	**22,306**	–
Unrealized gain on equity securities carried at FVTOCI	**9,364**	7,914	**9,364**	7,914
Gain on disposal of foreclosed of properties	**5,839**	9,858	**–**	–
Unrealized foreign exchange gain	**–**	9,089	**–**	9,089
	₱545,776	₱535,117	**₱431,649**	₱416,982

Provision for (benefit from) income tax directly charged to OCI by the Group in 2018, 2017 and 2016 amounted to ₱12.32 million, ₱8.69 million and (₱0.04 million), respectively.

Provision for income tax directly charged to OCI by the Parent Company in 2018 and 2017 amounted to ₱11.40 million and ₱7.91 million, respectively.

Deferred tax assets and liabilities are presented in the statements of financial position as follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Deferred tax assets	**₱74,487**	₱55,942	**₱40,808**	₱67,638
Deferred tax liabilities	**66,261**	39,448	**–**	–

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 and excess MCIT over RCIT:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Allowance for ECL/credit and impairment losses	**₱1,241,026**	₱1,409,277	**₱1,047,911**	₱1,098,291
Advance rental income	**139,240**	88,499	**139,240**	88,499
Unamortized past service cost	**41,730**	54,646	**41,730**	54,646
Accrued expenses	**77,119**	38,508	**77,119**	38,508
Unrealized foreign exchange loss	**2,565**	–	**2,565**	–
Retirement liability	**–**	21,169	**–**	20,354
Excess of MCIT over RCIT	**–**	3,769	**–**	3,769
	₱1,501,680	₱1,615,868	**₱1,308,565**	₱1,304,067

Details of the Parent Company's MCIT are as follow:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2015	₱12,163	₱12,163	₱–	₱–	2018
2017	3,769	3,769	–	–	2020
Total	₱15,932	₱15,932	₱–	₱–	

A reconciliation between the statutory income tax and the effective income tax follows:

	Consolidated			Parent Company		
	2018	2017 (As restated)	2016 (As restated)	**2018**	2017 (As restated)	2016 (As restated)
Statutory income tax	**₱256,190**	₱183,842	₱95,688	**₱255,754**	₱180,151	₱89,320
Tax effects of:						
Nondeductible expenses and others	**114,355**	110,412	264,336	**109,317**	96,651	247,818
FCDU income before income tax	**(81,707)**	(49,987)	(108,893)	**(81,707)**	(49,987)	(108,893)
Interest income subjected to final tax	**(42,933)**	(27,418)	(23,480)	**(42,783)**	(27,601)	(23,100)
Nontaxable income	**(21,283)**	(16,113)	(26,301)	**(15,650)**	(14,442)	(35,443)
Changes on unrecognized deferred tax assets	**3,107**	15,611	(49,355)	**1,350**	19,276	(39,105)
Effective income tax	**₱227,729**	₱216,347	₱151,995	**₱226,281**	₱204,048	₱130,597

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 and PRBI's defined benefit and contribution plans, as it provides trust and management services to the plans. Any investments made in the retirement plans are approved by the Parent Company's and PRBI's respective Retirement Board. The Parent Company's Retirement Board is comprised of senior officers of the Parent Company while PRBI's Retirement Board is comprised of its senior officers. Income earned by the Parent Company (presented as part of 'Income from trust operations' in the statements of income) from such services amounted to ₱4.64 million in 2018, ₱4.55 million in 2017, and ₱4.46 million in 2016. Total deposits maintained by the related party retirement plans with the Parent Company amounted to

₱51.40 million and ₱145.68 million as of December 31, 2018 and 2017, 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:

	2018	2017	2016
Short-term benefits	**₱142,480**	₱153,150	₱151,599
Post-employment benefits	**5,659**	7,548	8,058
	₱148,139	₱160,698	₱159,657

Details on significant related party transactions of the Parent Company follow:

	2018		
Category	**Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant investors:			
Deposit liabilities	**₱3,373,142**	**₱5,193,547**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.38%.
Interest expense	**78,561**	–	
Rent expense	**30,735**	–	Branch and office space leased for five years ending in various years, with 5.00% annual escalation.
Rent income	**4,225**	–	5-year lease of branches, subject to pre-termination, with escalation rate of 5%.
Affiliate:			
Deposit liabilities	**(399)**	**14,323**	Demand, savings and time deposit accounts with annual interest rates ranging from 0.10% to 1.50%.
Interest expense	**59**	–	
Rent income	**156**	–	5-year lease expiring in July 2018, with 5.00% annual escalation.
Subsidiaries:			
Deposit liabilities	**(75,977)**	**15,810**	Demand and savings deposit accounts with annual interest rates ranging of 0.10% to 0.13%.
Interest expense	**30**	–	
Rent income	**174**	–	3-year lease expiring in May 2020 with 7.50% and 10.00% annual escalation on second and third year, respectively.
Key management personnel:			
Deposit liabilities	**13,611**	**26,242**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 3.50%.
Interest expense	**123**	–	
Provident fund:			
Deposit liabilities	**(36,263)**	**21,027**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.00%.
Interest expense	**1,854**	–	
Trust fee	**2,331**	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	**(58,016)**	**30,377**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.00%.
Interest expense	**2,167**	–	
Trust fee	**2,306**	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
		2017	
Significant investors:			
Deposit liabilities	(₱763,897)	₱1,820,405	Savings and time deposit accounts with annual
Interest expense	7,827	−	interest rates ranging from 0.10% to 2.38%.
Rent expense	21,922	−	Branch and office space leased for five years ending in various years, with 5% annual escalation.
Rent income	3,567	−	5-year lease of branches, subject to pre-termination, with escalation rate of 5.00%.
Affiliate:			
Deposit liabilities	(88)	14,722	Demand, savings and time deposit accounts with
Interest expense	115	−	annual interest rates ranging from 0.10% to 1.50%.
Rent income	133	−	5-year lease expiring in July 2018, with 5.00% annual escalation.
Subsidiaries:			
Deposit liabilities	(27,677)	91,787	Demand and savings deposit accounts with annual
Interest expense	304	−	interest rates ranging of 0.10% to 0.13%.
Rent income	168	−	3-year lease expiring in May 2020 with 7.50% and 10.00% 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 expense	15	−	interest rates ranging from 0.10% to 3.50%.
Provident fund:			
Deposit liabilities	19,436	57,290	Savings and time deposit accounts with annual
Interest expense	460	−	interest rates ranging from 0.10% to 2.00%.
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 expense	709	−	interest rates ranging from 0.10% to 2.00%.
Trust fee	2,175	−	A certain percentage of the monthly ending market value of the fund depending on agreement.

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
		2016	
Significant investors:			
Deposit liabilities	₱2,580,919	₱2,584,302	Savings and time deposit accounts with annual
Interest expense	8,304	−	interest rates ranging from 0.13% to 3.50%.
Rent expense	17,650	−	Branch and office space leased for five years ending in various years, with 5.00% annual escalation.
Rent income	1,822	−	5-year lease of branches, subject to pre-termination, with escalation rate of 5.00%.
Affiliate:			
Deposit liabilities	6,743	14,810	Demand, savings and time deposit accounts with
Interest expense	331	−	annual interest rates ranging from 0.13% to 1.50%.
Rent income	146	−	5-year lease expiring in July 2018, with 5.00% annual escalation.
Subsidiaries:			
Deposit liabilities	18,055	119,464	Demand and savings deposit accounts with annual
Interest expense	2,855	−	interest rates ranging from 0.13% to 0.50%.
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 expense	16	−	interest rates ranging from 0.13% to 3.50%.

(Forward)

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
		2016	
Provident fund:			
Deposit liabilities	₱5,256	₱37,854	Savings and time deposit accounts with annual
Interest expense	574	–	interest rates ranging from 0.13% to 3.25%.
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 expense	739	–	interest rates ranging from 0.13% to 3.25%.
Trust fee	1,983	–	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**	
	2018	2017	**2018**	2017
Total outstanding DOSRI loans	**₱25,874**	₱25,631	**₱17,531**	₱16,951
Total outstanding DOSRI loans granted under regulations existing prior to BSP Circular No. 423	**25,874**	25,631	**17,531**	16,951
New DOSRI loans granted under BSP Circular No. 423	**–**	–	**–**	–
Total outstanding non-DOSRI loans prior to BSP Circular No. 423	**59,527,212**	51,561,881	**57,321,245**	49,465,240
Percent of DOSRI loans to total loans	**0.04%**	0.05%	**0.03%**	0.03%
Percent of unsecured DOSRI loans to total DOSRI loans	**74.79%**	75.20%	**62.79%**	62.50%
Percent of past due DOSRI loans to total DOSRI loans	**0.04%**	0.04%	**0.06%**	0.06%
Percent of nonperforming DOSRI loans to total OSRI loans	**0.04%**	0.04%	**0.06%**	0.06%

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, 2018 and 2017, 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:

	2018	2017	2016
Net income attributable to equity holders of the Parent Company	**₱626,233**	₱396,456	₱167,136
Weighted average number of common shares outstanding	**480,645**	480,645	480,645
Basic/diluted earnings per share	**₱1.30**	₱0.82	₱0.35

As of December 31, 2018, 2017 and 2016, 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**		
	2018	2017 (As restated)	2016 (As restated)	**2018**	2017 (As restated)	2016 (As restated)
Return on average equity	**6.18%**	4.39%	2.28%	**6.17%**	4.38%	2.28%
Return on average assets	**0.63%**	0.45%	0.21%	**0.64%**	0.46%	0.22%
Net interest margin	**4.02%**	4.27%	4.46%	**3.80%**	4.04%	4.09%

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, 2018, 2017 and 2016 follow:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Interbank loans receivable and SPURA shown under statements of cash flows	**₱193,820**	₱472,513	₱260,411	**₱193,820**	₱472,513	₱260,411
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**13,145**	62,412	49,720	**13,145**	62,412	49,720
Allowance for ECL	**(1)**	–	–	**(1)**	–	–
	₱206,964	₱534,925	₱310,131	**₱206,964**	₱534,925	₱310,131

The following is a summary of noncash activities:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Noncash operating activities:						
Additions to investment properties from settlement of loans (Note 14)	**₱113,017**	₱40,909	₱75,679	**₱101,263**	₱38,870	₱75,679
Additions to chattel mortgage from settlement of loans	**180,562**	167,196	28,325	**180,484**	167,196	28,325
Noncash investing activities:						
Transfer to property and equipment from investment properties (Notes 13 and 14)	**–**	895	–	**–**	(1,416)	–
Transfer to investment properties from property and equipment (Notes 13 and 14)	**–**	(895)	–	**–**	1,416	–
Transfer to property and equipment from other assets (Notes 13 and 16)	**7,014**	16,291	–	**7,014**	16,291	–
Transfer to other assets from property and equipment (Notes 13 and 14)	**(7,014)**	(16,291)	–	**(7,014)**	(16,291)	–
Additional investments in subsidiary in the form of reinvested dividend (Note 7)	**–**	–	–	**–**	–	25,067

The changes in liabilities arising from the Group's financing activities in 2018 and 2017 are as follows:

	January 1, 2018	**Cash Flows**	**Foreign Exchange Movement**	**December 31, 2018**
Bills payable (Note 19)	**₱12,567,399**	**₱5,096,559**	**(₱4,915)**	**₱17,659,083**
Outstanding acceptances	**64,085**	**(19,683)**	**1,942**	**46,344**
Marginal deposits	**532**	**(228)**	**–**	**300**
Total liabilities from financing activities	**₱12,632,016**	**₱5,076,688**	**(₱2,973)**	**₱17,705,731**

	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	165	367	–	532
Total liabilities from financing activities	₱10,133,906	₱2,497,495	₱615	₱12,632,016

The changes in liabilities arising from the Parent Company's financing activities in 2018 and 2017 are as follows:

	January 1, 2018	**Cash Flows**	**Foreign Exchange Movement**	**December 31, 2018**
Bills payable (Note 19)	**₱12,567,399**	**₱5,028,800**	**(₱4,915)**	**₱17,591,284**
Outstanding acceptances	**64,085**	**(19,683)**	**1,942**	**46,344**
Marginal deposits	**532**	**(228)**	**–**	**300**
Total liabilities from financing activities	**₱12,632,016**	**₱5,008,889**	**(₱2,973)**	**₱17,637,932**

	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	165	367	–	532
Total liabilities from financing activities	₱10,133,906	₱2,497,495	₱615	₱12,632,016

34. Events Subsequent to the Reporting Period

On their regular meeting held on February 27, 2019, the BOD approved Board Resolution No. 1902-030 on the sale of the Parent Company's dealer-generated auto loans to East West Banking Corporation. The purchase price will be the sum of the face value of all current outstanding loan principal balance, as well as the related accrued interest and unamortized incentives. The final purchase price will depend on the determination of the cut-off date and results of the due diligence to be conducted by East West Banking Corporation or its authorized auditing firm. As of March 27, 2019, the due diligence is ongoing. Further, the Parent Company will retain its branch-referred auto loans and is poised to grow it further together with other loan products.

35. Approval for Release of the Financial Statements

The financial statements were authorized for issue by the BOD of the Parent Company on March 27, 2019.

36. **Standards Issued but not yet Effective**

Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. The adoption of these pronouncements is not expected to have a significant impact on the Group's financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Financial Instruments, Prepayment Features with Negative Compensation*
  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (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 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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

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

- Amendments to PAS 28, *Investments in Associates and Joint Ventures Long-term Interests in Associates and Joint Ventures*
  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

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

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by tax authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*
    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

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

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

  - Amendments to PAS 12, *Income Taxes, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, OCI or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

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

    An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

<u>Effective beginning on or after January 1, 2020</u>

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process

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

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

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

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

Effective beginning on or after January 1, 2021

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

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

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred Effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

37. 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 2018:

GRT	₱271,323
DST	247,915
Local taxes	19,594
Fringe benefit taxes	3,810
Others	269
	₱542,911

Withholding Taxes
Details of total remittances in 2018 and outstanding balance of withholding taxes as of December 31, 2018 follow:

	Total Remittances	Balance as of December 31
Final withholding taxes	₱281,727	₱39,387
Withholding taxes on compensation and benefits	123,234	7,189
Expanded withholding taxes	76,337	3,252
	₱481,298	₱49,828

Tax Assessments and Cases
As of December 31, 2018, 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.

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Building a better working world

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ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

The 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, 2018, on which we have rendered the attached report dated March 27, 2019.

In compliance with Securities Regulations Code Rule 68, As Amended (2011), we are stating that as of December 31, 2018, the Company has three hundred fifty nine (359) stockholders owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-4 (Group A),
November 13, 2018, valid until November 12, 2021
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332515, January 3, 2019, Makati City

March 27, 2019

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SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

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, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, included in this SEC Form 17-A, and have issued our report thereon dated March 27, 2019. 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

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-4 (Group A),
November 13, 2018, valid until November 12, 2021
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March 27, 2019

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018

PHILIPPINE BANK OF COMMUNICATIONS
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
AS OF DECEMBER 31, 2018

Unappropriated Retained Earnings, beginning		(4,311,607)
Effect of Adoption of PFRS 9		(230,893)
Unappropriated Retained Earnings, as adjusted, beginning		(4,542,500)
Adjustments:		
Net income during the period closed to Retained earnings	626,233	
Less: Non-actual/unrealized income, net of tax		
Equity in net income of subsidiaries and associates	(23,231)	
Unrealized foreign exchange gain/loss , net (except those attributable to Cash and Cash Equivalents),	(225)	
Gain on foreclasure, net of tax	(9,193)	
Unrealized actuarial gain	-	
Fair value adjustment (M2) gains)	-	
Fair value adustment of investment property resulting to gain	-	
Adjustment due to deviation from PFRS/GAAP-gain	-	
Other unrealized gains or adjustmetns to the retained earnings	-	
Sub total	(32,649)	
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 foreclasure, net of tax	-	
Sub total		
Add: Net income actually earning during the period		658,882
Add (Less):		
Dividend declarations during the period	-	
Appropriations of Retained Earnings during the period	(69)	
Reversals of appropriations	-	
Effects of prior period adjustments	-	
Treasury shares	-	
TOTAL RETAINED EARNINGS, END		(69.00)
AVAILABLE FOR DIVIDEND		**(3,883,687)**

Philippine Bank of Communications and Subsidiaries
SCHEDULE A. Financial Assets
As of December 31, 2018

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				
Republic of the Phlippines	893,216	893,216	893,216	13,554
	893,216	**893,216**	**893,216**	**13,554**
Investment Securities at Amortized Cost				
Republic of the Phlippines	**9,110,000**	**13,341,599**	**10,915,596**	**92,405**
	9,110,000	13,341,599	10,915,596	92,405
Unquoted debt securities classified as loans				
Atlantic	82,272	82,272	77,634	1,438
MRT III	1,321,156	1,321,156	1,677,726	-
	1,403,428	**1,403,428**	**1,755,359**	**1,438**
Financial Assets at Fair Value Through Other Comprehensive Income				
Debt securities				
First Pacific Co.	289,190	287,562	287,562	2,479
Philippine National Bank	949,910	942,719	942,719	7,177
JG Summit	52,580	51,822	51,822	1,010
Indonesian Government	630,960	639,440	639,440	1,665
Bank of Philippine Island	42,064	41,926	41,926	581
Banco De Oro	510,026	482,908	482,908	4,806
8990 Holdings	247,900	244,899	244,899	2,565
Republic of the Phlippines	3,811,836	4,001,835	4,001,835	68,897
	6,534,467	**6,693,111**	**6,693,111**	**89,179**
Equity securities				
Philippine Central Depository, Inc.	21,126	3,502	3,502	**-**
Bancnet, Inc.	50,000	16,408	16,408	-
Philippine Clearing House Corp.	21,000	8,311	8,311	-
Philippine Dealing System Holding Corporati	12,500	2,688	2,688	-
Club Filipino	1	180	180	-
Tagaytay Golf and Country Club	1	0	0	-
Valley Golf Club	2	390	390	-
WackWack Golf and Country Club	2	36,890	36,890	-
Metropolitant Club	1	36,500	36,500	-
Tower Club	1	250	250	-
		105,119	**105,119**	**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, 2018

	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, 2018

	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.	185,676	2,168,029	(1,776,510)	-	577,195		577,195
	Banco Dipolog, Inc.	1,778,553	7,474,102	(8,595,877)	-	656,778		656,778
(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, 2018

	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	378,879	33,583	(73,987)			338,475
(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, 2018

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, 2018

	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, 2018

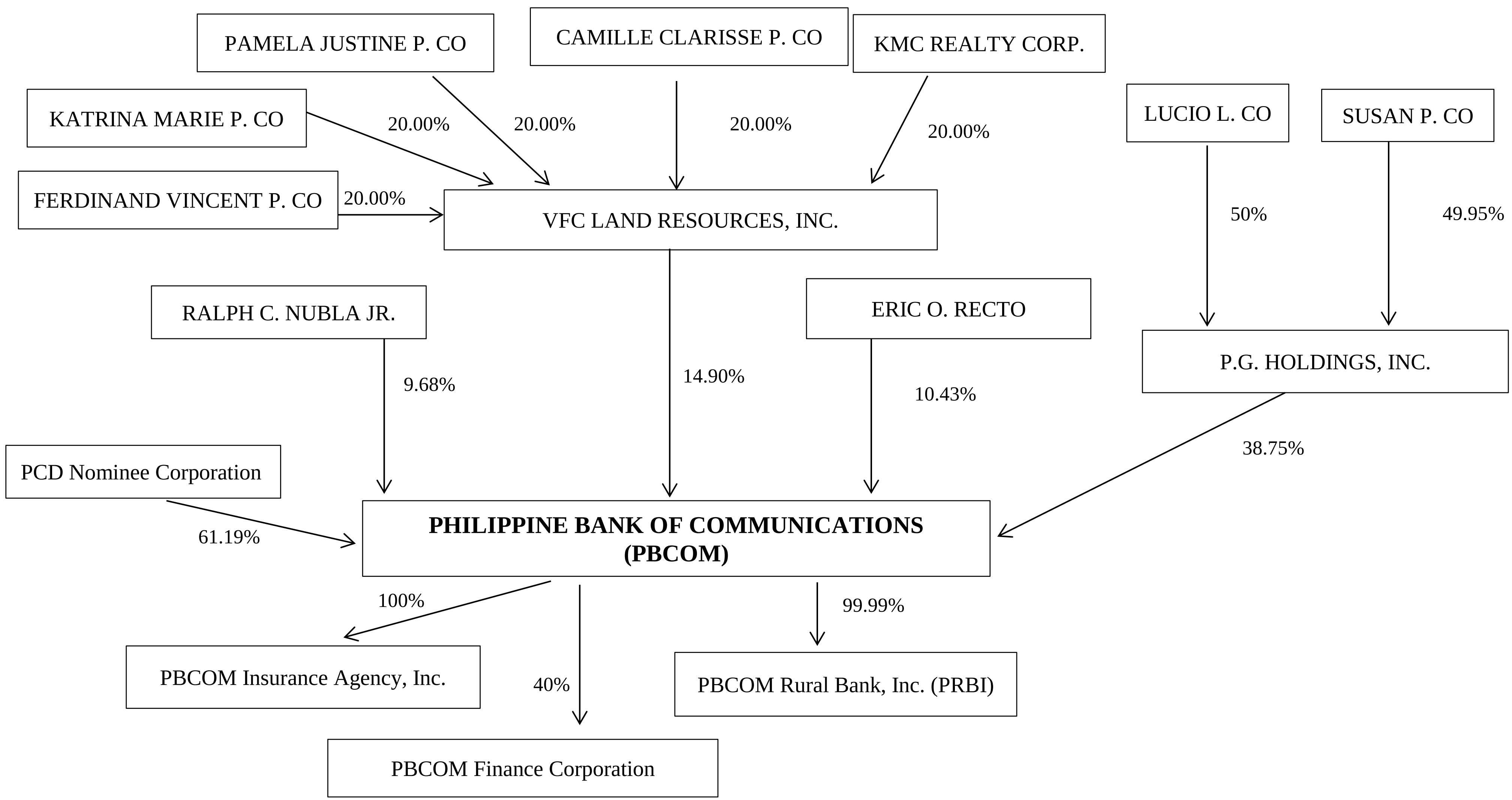
	Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
			(i)		(ii)
	NONE TO REPORT				
(i)	*Indicate 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, 2018

	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.*

PHILIPPINE BANK OF COMMUNICATIONS
MAP SHOWING THE RELATIONSHIP BETWEEN AND AMONG RELATED ENTITIES
AS OF DECEMBER 31, 2018



PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	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 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease			✓
Philippine Interpretation	Rights to Interests arising from Decommissioning, Restoration and			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC-5	Environmental Rehabilitation Funds			
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2018**		**Adopted**	**Not Adopted**	**Not Applicable**
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

Philippine Bank of Communications and Subsidiaries
Financial Soundness Indicators

A. Key Performance Indicators

Ratios	Consolidated December 31 Balances		Parent December 31 Balances	
	2018	2017 (as restated)	2018	2017 (as restated)
Profit Margin	**14.20%**	**9.77%**	**15.35%**	**10.59%**
Net Income	626,236	396,459	626,233	396,456
Gross Income	4,410,077	4,056,608	4,080,663	3,743,205
Return on Average Asset	**0.63%**	**0.45%**	**0.64%**	**0.46%**
Net Income	626,236	396,459	626,233	396,456
Average Assets	99,396,486	88,913,679	97,569,209	87,017,893
Return on Average Equity	**6.18%**	**4.39%**	**6.17%**	**4.38%**
Net Income	626,236	396,459	626,233	396,456
Average Equity	10,134,543	9,040,941	10,143,938	9,049,792
Capital Adequacy Ratio	**14.56%**	**15.85%**	**14.50%**	**15.85%**
Qualifying capital	11,659,212	11,425,937	11,202,476	11,023,022
Total risk-weighted assets	80,093,331	72,078,070	77,266,776	69,564,214
Basic Earnings per Share	**1.30**	**0.82**		
Net income attributable to equity holders of the Parent Company	626,233	396,456		
Average No. of common shares	480,645	480,645		

B. Financial Soundness

Ratios	Consolidated 2018	Consolidated 2017 (as restated)	Parent 2018	Parent 2017 (as restated)
Liquidity Ratio	**51.65%**	**51.27%**	**52.53%**	**52.10%**
Liquid Assets	38,233,983	36,264,217	37,994,498	35,969,963
Total Deposits	74,028,731	70,735,817	72,335,327	69,045,014
Debt Ratio	**90.05%**	**89.54%**	**89.85%**	**89.33%**
Total Liabilities	93,423,408	85,100,479	91,531,495	83,319,048
Total Assets	103,749,322	95,043,650	101,866,805	93,271,613
Asset to Equity	**1005%**	**956%**	**986%**	**937%**
Total Asset	103,749,322	95,043,650	101,866,805	93,271,613
Total Equity	10,325,914	9,943,171	10,335,310	9,952,565
Interest Rate Coverage Ratio	**150%**	**158%**	**151%**	**159%**
Earnings before interest & taxes	2,545,049	1,671,866	2,459,787	1,587,766
Interest Expense	1,691,334	1,059,752	1,630,504	998,603
Net Interest Margin	**4.02%**	**4.27%**	**3.80%**	**4.04%**
Net Interest Income	3,114,387	2,901,558	2,869,809	2,665,009
Average Earning Assets	77,402,724	68,021,965	75,431,532	65,979,838