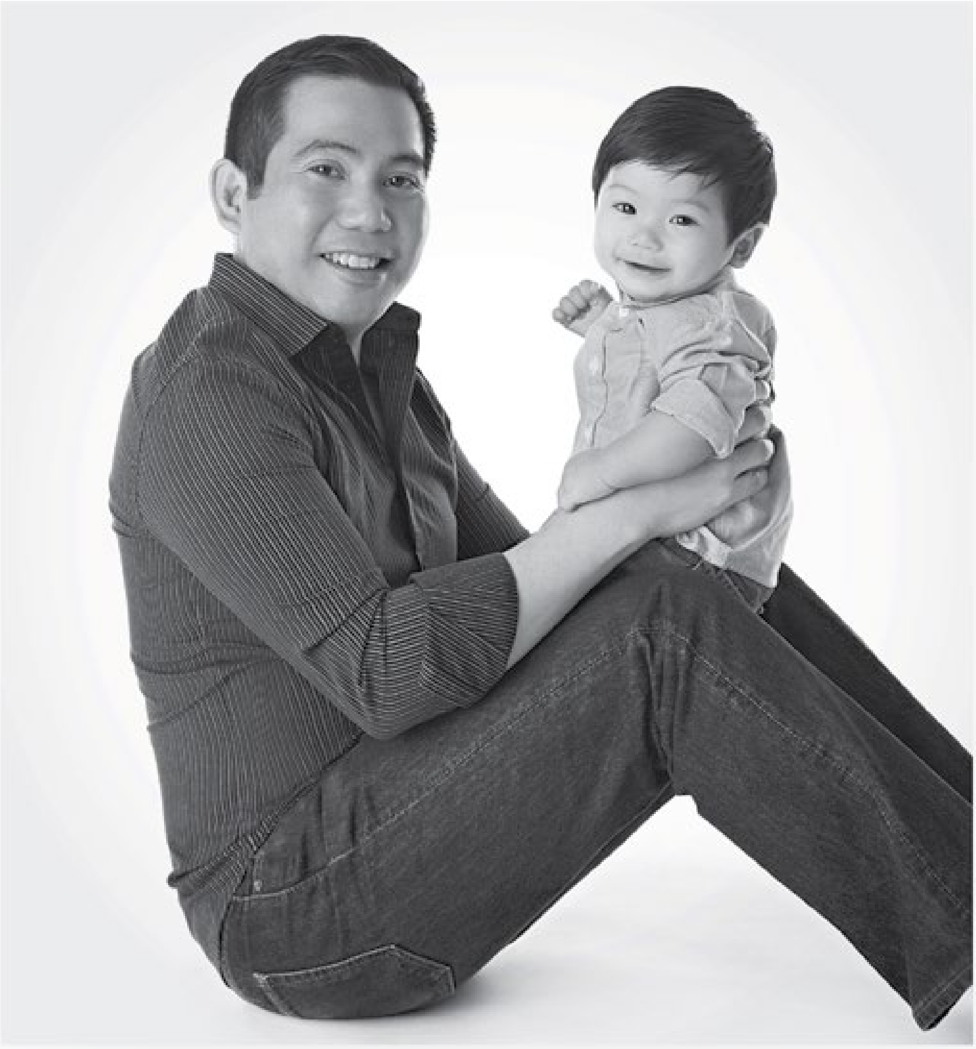
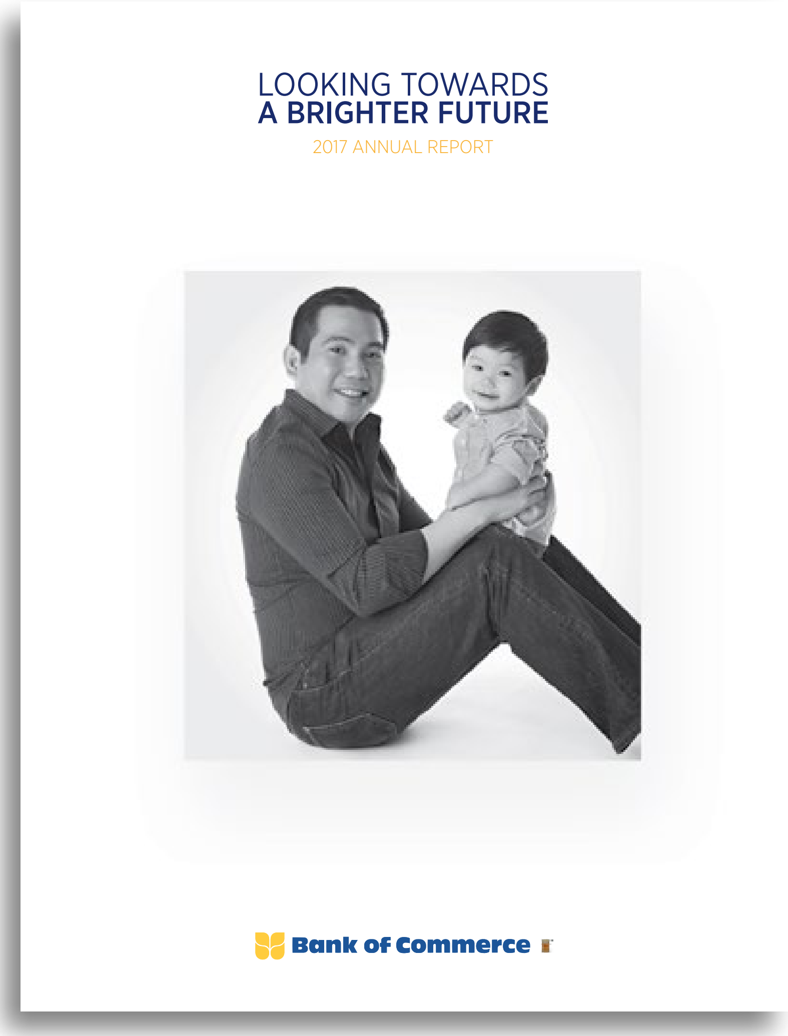
LOOKING TOWARDS
A BRIGHTER FUTURE

2017 ANNUAL REPORT



Bank of Commerce



ABOUT the Cover

LOOKING TOWARDS A BRIGHTER FUTURE

Bank of Commerce has always been about giving the most unique banking experience to our customers. Driven by this commitment, we have been forward-looking in the way we serve our clients, anticipating their every need to ensure that they only get what they deserve whenever they bank with us and become their partner for success in every aspect of their lives. Our progressive approach has fueled us to work harder to bring our products and services to greater heights – from expanding our portfolio of products and providing superior service, to improving our systems, processes, and enhancing the talent and skills of our people.

Our cover shows how we, as an institution, backed by capable people, come together to work as one in achieving a common goal: to provide a banking experience that helps customers attain a brighter future. Expect Bank of Commerce to not rest on its laurels as it continues to break new ground and blaze the trail towards changing the way people bank today. We Think Customers and we will always be driven by our unwavering commitment to meet the wants and needs of our clients as they look towards a better tomorrow.

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COMPANY Profile

Bank of Commerce (the Bank) is one of the country's progressive commercial banks and is licensed by the Bangko Sentral ng Pilipinas (BSP). The Bank has been in operation since 1963 and traces its origins to the Overseas Bank of Manila with headquarters in Binondo, Manila.

The Bank has since evolved through different phases of growth. In 1980, Overseas Bank of Manila changed its name to Commercial Bank of Manila. The following year, the Government Service Insurance System (GSIS) acquired the Commercial Bank of Manila and used "ComBank" as the Bank's short name. In 1984, ComBank acquired Royal Savings Bank. The First National Bank of Boston, one of the oldest and leading banks in the United States, and a local investment group acquired ComBank in 1988 and was then renamed Boston Bank of the Philippines.

In November 1991, the Bank changed its official name to Bank of Commerce. The buyout of the majority interest of the First National Bank of Boston was completed in 1993, placing Bank of Commerce under complete Filipino ownership. As part of its growth plans, Bank of Commerce acquired Pan Asia Bank and purchased selected assets and liabilities of Trader's Royal Bank in 2001. These takeovers significantly increased the Bank's presence in the banking industry.

Filipino-owned San Miguel Properties, Inc., a subsidiary of San Miguel Corporation (SMC), and San Miguel Corporation Retirement Fund, the registered retirement plan of SMC Group employees, became the controlling shareholders of Bank of Commerce in 2008. San Miguel Properties, Inc. has 39.89% of ownership and San Miguel Corporation Retirement Fund has 39.94% of ownership, as of December 31, 2017. On January 16, 2013, the Securities and Exchange Commission (SEC) approved the extension of the corporate life of Bank of Commerce for another 50 years from December 13, 2013.

Bank of Commerce provides innovative banking solutions and a complete range of products and services in deposit, commercial loans, credit card services, consumer banking, corporate banking, treasury, asset management, and trust and investments. In terms of service reach, the Bank relaunched the Retail and Corporate Internet Banking facilities with enhanced features to encourage consumers and corporate clients to transact regular banking services such as bills payment, fund transfers, card loading, and other services via the internet banking platform.

The Bank has a network of 136 Branches and 252 Automated Teller Machines (ATMs) strategically located nationwide, as of December 31, 2017.

ABOUT Us

Vision

To be the Bank of choice for the business community, delivering a total banking experience characterized by friendly and outstanding service with the desire to provide a better quality of life for all.

Mission

Our business is professional banking.
We commit to serve our clients with the highest standards of integrity and quality. We strongly believe in our human resources and dedicate ourselves to their continuous development.

We will create value for our stakeholders by being among the top banks in the industry.
In so doing, we contribute to nation building.

We are Bank of Commerce.

Service Promise

With integrity and financial stability, we commit to deliver superior service to you, our discerning customers.

Through competent and warm professionals who understand, anticipate, and fulfill your needs with a sense of urgency in a safe and guest-friendly environment, we promise you a meaningful banking experience.

ECONOMIC Forecast

The Philippines continues to exhibit an improving and more vibrant economy that is poised for steady growth. The country's performance in 2017 is a solid indication of its tenacity to rise above current challenges and remain focused and unperturbed in strengthening all sectors of its economy to become a force to be reckoned with in the global market.

“WITH THESE STRONG INDICATORS, EXPECT BANK OF COMMERCE TO RIDE THE WAVE OF THE COUNTRY’S ECONOMIC GROWTH AS IT EYES A BETTER BANKING EXPERIENCE FOR ITS CUSTOMERS.”

The 2017 last-quarter GDP growth rate of 6.6%, while not as impressive as the 6.9% achieved from the previous year, was still a strong finish that brought the country’s full-year expansion to 6.7%. With this remarkable achievement, the Philippines remains one of the fastest-growing economies in Asia, trailing behind China at 6.9% and Vietnam at 6.8%.

The gains achieved the past year were fueled by continuous growth in the manufacturing, trade, real estate, and business sectors. The services sector remains a strong driver of this growth with a 7.1% year-on-year growth. The industry sector provided a much-needed support to achieve an impressive GDP rate for 2017, with manufacturing climbing from 7% in 2016 to 8.8%, boosted by the mining and quarrying sectors which also posted an 8.8% growth rate. Construction also recorded a 2.8% increase from 10.7% during the last quarter of 2017. Agriculture surprisingly showed a positive turnaround, posting 2.4% from 1.3% in 2016.

The country's GDP performance was also boosted by higher consumer spending, which grew to 6.1%. Government spending jumped to 11% from last year's 4.5%, buoyed by the government's delivery of public services and social protection. Capital formation, on the other hand, eased from 8.7% from the same period last year to 8.2% this year, as exports and imports provided a strong finish at 18.6% and 17.5%, respectively.

Cash remittances, while not as impressive as the previous years’, remained resilient, posting a total of USD28.1 billion in 2017, up from 4.3% from USD26.9 billion in 2016. Remittances mostly came from OFWs working in the USA, UAE, Saudi Arabia, Singapore, Japan, United Kingdom, Qatar, Kuwait, Germany, and Hong Kong.

The Philippine economic gains further earned confidence from major international credit-rating agencies. Fitch upgraded the country’s sovereign rating from BBB- to BBB stable, citing domestic demand and foreign direct investment as evidence for strong investor sentiment and the country’s impressive GDP performance in the third quarter.

The growth displayed by the country is expected to continue as the government remains focused on its desire to bring about economic reforms anchored on stronger governance. For 2018, NEDA expects the country’s GDP to grow between 7% to 8%, while the ADB, IMF, World Bank, S&P, and Nomura all pegged the country’s growth next year between 6.5% to 6.9%.

The strong economic performance showcased by the country has been backed by the solid support provided by the Philippine banking industry. As Nestor A. Espenilla Jr. takes over the reins as the new BSP governor, the banking industry has set its sights on complementing the gains achieved by the domestic economy through faster delivery of services and more secure products for customers. Philippine banks have complemented BSP’s efforts by establishing a strong presence in the Southeast Asian region through the ASEAN Banking Integration Framework (ABIF) that is expected to be completed by 2020.

With these strong indicators, expect Bank of Commerce to be one with the country as it continues to achieve high marks towards economic growth. We are one with the nation as it eyes a brighter future for generations to come, setting our sights towards giving our customers a better banking experience. From improving our systems and portfolio of products to enhancing our processes and security features, we are leaving no stone unturned to ensure that a better tomorrow awaits every Filipino, whenever they bank with us.

REPORT FROM THE CHAIRMAN and the President & CEO

The Philippine economy received many accolades for its performance in 2017. With a 6.7% GDP growth rate, it was the third fastest-growing economy in Asia. Both domestic and foreign entities made substantial capital investments in the country whose economy is characterized by steady inflow of remittances and high consumer spending growth. With Fitch's December 2017 credit upgrade, the credit rating of the Philippines now stands at two notches above investment grade. It is not surprising then that the World Bank predicts the Philippines to be the fastest-growing economy in the ASEAN region from 2018 to 2020.

By maintaining a low interest rate regime, the Bangko Sentral ng Pilipinas (BSP) has supported an expanding economy which has exhibited 76 consecutive quarters of uninterrupted growth. The government spent PHP568.8 billion, equivalent to 3.6% of GDP, on infrastructure and other capital outlays. The industrial sector posted a 9.4% year-on-year growth and the services sector posted a 7.1% year-on-year growth. Both are among the primary drivers of progress. On the demand side, growth is pushed by robust private consumption and capital investments. Fortunately, observed growth is broad-based and comes from various sources.

The Philippines' sound macroeconomic fundamentals and positive growth prospects have also encouraged a record high of USD10 billion in Foreign Direct Investment (FDI) inflows, up 21.4% from 2016. FDIs are actual inflows from overseas which may be in the form of equity capital, reinvestment of earnings, or borrowings of affiliates. This validates the country's status as a primary investment destination.

As stated by Governor Nestor A. Espenilla Jr., who took over the reins of the BSP in July 2017, the Philippine banking system remains sound and stable. The banking industry's performance in 2017 showed sustained growth in assets (up 11%), deposits (up 11%), loans (up 18%), and capital (up 15%). As such, the banking industry continues to exhibit improving asset quality, adequate liquidity, and strong capitalization.

For 2017, Bank of Commerce (the Bank) recorded a net income of PHP626 million, up 2.5% from the previous year, while total assets grew to PHP140.5 billion from PHP138.7 billion in 2016. Total loan portfolio reached a record high of PHP64 billion, as both the corporate and consumer loan portfolios registered marked growth. While there was substantial demand for loans, competition among banks was stiff, resulting in lower-than-expected net interest income. The sale of a number of long-held acquired assets significantly brought up non-interest income, and prudent management of expenses allowed the Bank to exceed its previous year's net income.

Continuing the Bank's commitment to expanding and strengthening its branch network, it opened two new branches, relocated six sub-optimally performing branches, and upgraded three flagship provincial branches.

The Bank successfully implemented the Corporate Internet Banking Direct Auto-Debit Arrangement module, the in-house developed bRemit system, Check Image

Clearing System (CICS), SWIFT infrastructure updates, and EMV-related projects, among others.

The Bank likewise rolled out Priority Access, a proprietary program which provides personalized and privileged services, as well as exclusive benefits and perks, aimed at enhancing relationships with select clients.

Recognizing that its people are its most valuable resource, the Bank continues to seek training opportunities not only for the staff and junior officers but for the senior officers as well. Last year, a well-established consulting firm was engaged to provide selected senior officers with training modules to enhance their skills in strategic thinking, customer centricity, innovation, digitalization, financial technology, and leadership transformation.

Together with trusted organizations such as the International Care Ministries (ICM), San Miguel Foundation, Habitat for Humanity, and World Vision, the Bank remained committed to its Corporate Social Responsibility pursuits, aimed at uplifting the conditions of underprivileged communities. These were in the form of conducting training programs to enhance life skills, educating pregnant women regarding prenatal and maternal care, and encouraging volunteer work to improve educational and housing facilities.

To remain competitive in an ever-evolving industry where technology and innovation constantly shape the landscape, the Bank's Information Technology Services Division is expected to play a key role in ensuring security of bank systems, completion of the Data Integration Platform (DIP) project, and rollout of a robust Mobile Internet Banking (MIB).

Given the consensus forecast of a more rapidly growing economy in 2018 and the rise of the country's favorable demographics (majority of the population will be of working age), much more business opportunities are expected. With the Bank's continuous investments in systems and people, the Bank is strategically positioned to seize these opportunities, take its legacy further to even greater heights, and be one with our customers as they plan ahead for a brighter future.

JOSE T. PARDO
CHAIRMAN

ROBERTO C. BENARES
PRESIDENT AND CEO





PRODUCTS & Services

RETAIL PRODUCTS

- Savings Account with Debit Card
- Savings Account with Passbook
- Savings Account Plus
- Checking Account
- Complete Checking Account
- US Dollar Savings Account
- Euro Savings Account
- Junior Smart Savers Savings Account
- One Passbook Investment Account
- Time Deposit
- One-Year Time Deposit
- US Dollar Time Deposit
- Euro Time Deposit
- SSS Pension Account
- US Veterans Pension Savings Account (PHP and USD)
- Payroll Savings Account
- Philippine Retirement Authority (PRA) Savings and Time Deposit Accounts (PHP and USD)
- Cash Card

CONSUMER LOANS

- Home Loan
- Auto Loan
- Salary Loan

CREDIT CARD

- Bank of Commerce Mastercard

DIGITAL CHANNELS

- ATM
- Corporate Internet Banking
- Retail Internet Banking

TRUST PRODUCTS AND SERVICES

- Investment Management Account
- Unit Investment Trust Funds
  - Diversity Money Market Fund
  - Diversity Peso Bond Fund
  - Diversity Dollar Bond Fund
  - Diversity Dividend Focused Fund
- Trust and Other Fiduciary Services
  - Personal Management Trust
  - Employee Benefit Trust
  - Facility / Loan Agency
  - Trust Under Indenture
  - Collateral Trust
  - Escrow Agency
    - Buyer and Seller Escrow
    - POEA Escrow
    - BIR Escrow
    - HLURB Escrow
    - Source Code Escrow
    - Other Types of Escrow
  - Other Institutional Trust / Agency Accounts

TREASURY PRODUCTS

- Fixed Income Government Securities (Peso / Dollar)
- Corporate Bonds
- Foreign Exchange

CORPORATE BANKING

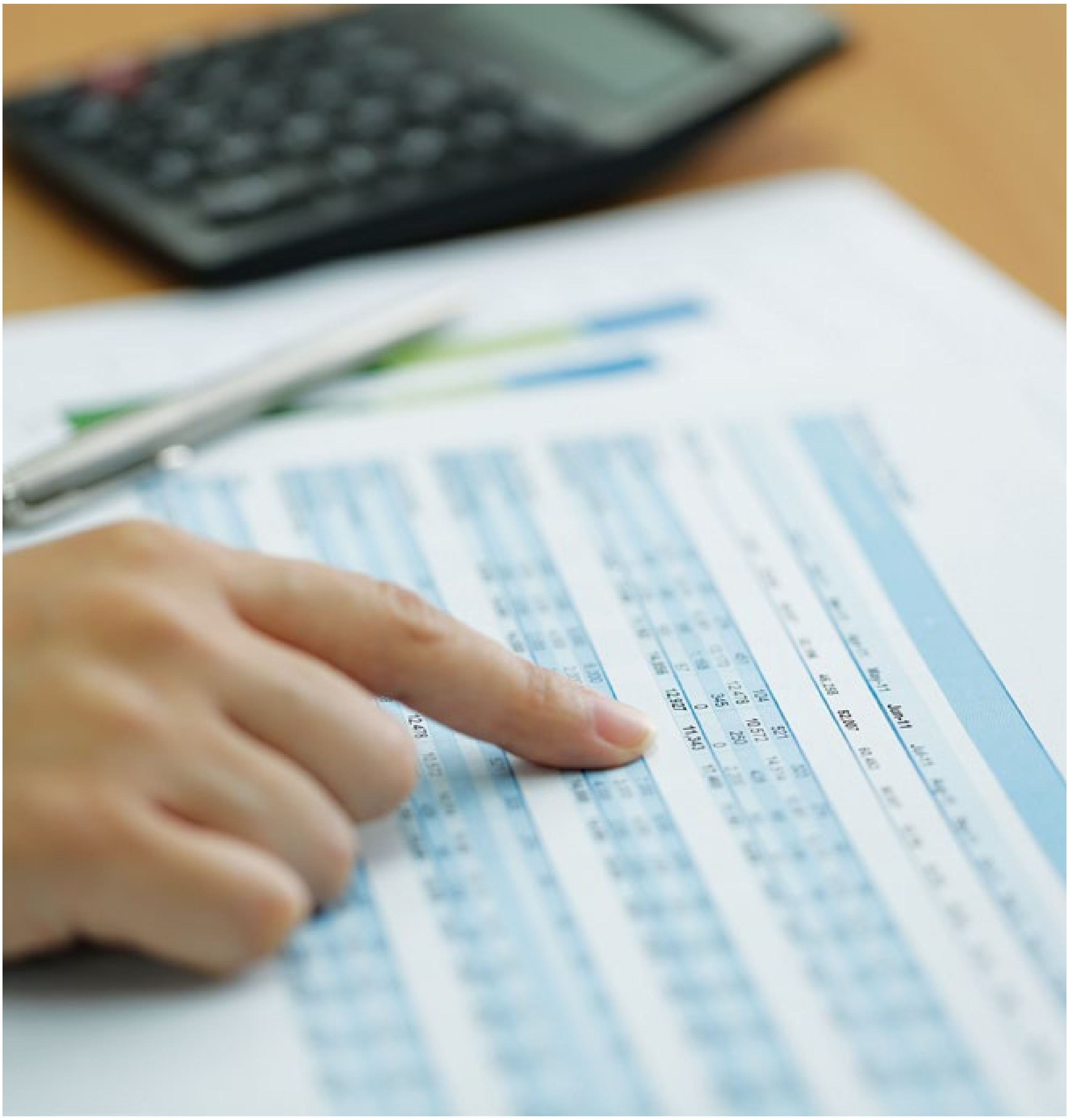
- Working Capital Loan
- Term Loan
- Capital Expenditure Financing
- Project Financing
- Small Business Loan – Term Loan
- Small Business Loan – Business Credit Line
- Foreign Currency Denominated Loan
- Trade Financing
- Letters of Credit
- Export Packing Credit
- Export Bills Purchase
- Domestic Bills Purchase

CASH MANAGEMENT AND PAYMENT SERVICES

- Funds Manager Solutions
  - Deposit Inquiry Services
  - Account Transaction History
  - Bank Statement Downloading
  - SOA Download (MultiCash, MT940 formats)
  - Fund Transfer to Own Accounts
- Payments Management Solutions
  - Fund Transfer to Third Party Accounts
  - Auto Credit Arrangement (ACA)
  - Payroll Crediting Service
  - Manager's Check Cutting Service
- Collections Management Solutions
  - Auto Debit Arrangement (ADA)
- Other Cash Management Services
  - Deposit Pick-Up Service
  - Bills Payment Facility
  - Payroll Plus
  - Post-Dated Check Warehousing Facility
  - Customs, Duties and Taxes Payments (via BoC PAS5 Facility)
  - BancNet - BIR Electronic Filing and Payment System (BIR eFPS)
  - BancNet - eGovernment Facility (SSS, Pag-IBIG and PhilHealth Payments)

REMITTANCE SERVICES

- SikapPinoy OFW Account
- Credit to Accounts with Bank of Commerce
- Credit to Accounts with Other Philippine Banks
- Cash Home Delivery
- Cash Pick-up Services via Bank of Commerce Branches from Partners & Tie-ups:
  - Al Ansari Exchange LLC
  - Al Ghurair Exchange LLP
  - Al Mulla International Exchange Co.
  - Arab National Bank
  - Bank Al Jazira
  - Prabhu Money Transfer
  - TransFast
  - Eastern & Allied Pty Ltd (HaiHa Money Transfer)
  - U Remit International Corp
  - Family Express Canada
  - WorldRemit Ltd
  - MoneyGram
- Cash Pick-up Services via Payout Partners:
  - M Lhuillier
  - Cebuana
  - LBC Express
  - Palawan Pawnshop
- eGovernment Payments of OFWs through Remittance Partners:
  - SSS Contributions / Loan Payments
  - PhilHealth Contributions
  - Pag-IBIG Contributions / Loan Payments



FINANCIAL Highlights

	2017	2016
PROFITABILITY		
Total Net Interest Income	3.4	3.3
Total Non-Interest Income	1.4	1.1
Total Non-Interest Expenses	(3.8)	(3.6)
Expense from Income Tax	(0.4)	(0.3)
Pre-provision profit	0.6	0.5
Reversal of Credit and Impairment Losses	0.0	0.1
Net Income	0.6	0.6
SELECTED BALANCE SHEET DATA		
Liquid Assets	59.4	68.0
Gross Loans	64.0	49.8
Total Assets	140.5	138.7
Deposits	118.8	117.5
Total Equity	17.8	17.3
SELECTED RATIOS		
Return on Equity	3.6%	3.5%
Return on Assets	0.5%	0.5%
CET 1 Capital Ratio (for UBs/KBs)	16.4%	17.5%
TIER 1 Capital Ratio (for UBs/KBs)	16.4%	17.5%
Capital Adequacy Ratio	17.1%	18.1%
PER COMMON SHARE DATA		
Net Income per share:		
Basic	5.6	5.4
Diluted	5.6	5.4
Book Value	158.6	154.2
OTHERS		
Cash Dividends Declared	N/A	N/A
Headcount	1,720	1,624
Officers	804	754
Staff	916	940

(Amounts in PHP billion, Except Ratios, Per Common Share & Headcount)

OPERATIONAL Highlights

Driven by our commitment to helping customers achieve a brighter future, we made 2017 the year of introducing a bigger and better Bank of Commerce. Taking a cue from what our clients need, we worked on enhancements after enhancements in every aspect of our business to ensure that our products and services are aligned with their personal and professional goals, and that we become the banking partner they can lean on to make their lives even better.

BRANCH BANKING GROUP

Branch Banking Group (BBG) continued to perform well in 2017, growing its core CASA deposit portfolio by nearly PHP3.7 billion on Year-to-Date ADB basis, on the back of more than 41,000 new customers acquired during the year. Forty percent of this portfolio growth came organically from satisfied existing customers. Total branch-generated consumer loans also breached the PHP1 billion mark in 2017, tallying at over PHP1.4 billion by the end of the year, which is almost 45% higher than the previous year. Account referrals to Trust and Treasury services likewise remained robust, with higher than PHP2 billion in additional investments. Branches also contributed to new and recurring fee income streams generated from their heightened promotion of the Bank's Cash Management solutions.

Two new branches were opened simultaneously on July 24, 2017. Riding on the upbeat prospects of Baliuag, Bulacan, the Bank opened its second branch at this bustling town, located along Doña Remedios Trinidad (DRT) Highway. Meanwhile, the Bank's entry into the Iligan City market bodes well with its commitment to helping rebuild the communities in that part of Mindanao.

Relentless in its vision to actualize its repositioning strategy, BBG pursued six relocations: Cebu-Banilad, Commonwealth, Tutuban, Tanauan, Bicutan, and the bold move from Rosario to Imus, Cavite. It also updated the look and feel of its flagship branches in Cebu-Fuente, Iloilo-Iznart, and Bacolod-Lacson.

Efficiency building and operational enhancements likewise continued, with savings generated from space reductions, localized purchasing, and funding cost realignments. Alongside this, people nurturance remained a priority, with BBG conducting its annual Service Clinics and branch officers development programs to increase quality and focus. In the final quarter of 2017, new groundwork preparations were set in motion, such as the introduction of the BBG Sales Standards and the BBG Way of Life, to ensure another fruitful year in 2018 and beyond.

CORPORATE BANKING GROUP

The loan portfolio of the Corporate Banking Group (CBG) in 2017 expanded significantly by 32% to PHP50.79 billion, compared to the end-2016 level of PHP38.43 billion. CBG was able to make inroads in the financial markets by concentrating and further developing close relationships with the country's Top 1,000 corporations.

Growth in CBG was seen in all lending divisions and continued improvement in asset quality was evident with no new significant past due loans.

Loan portfolio remained heavily skewed towards industries that are currently benefiting from the favorable local economic environment, particularly in real estate, power, infrastructure, and construction. For 2018, the Bank's focus in lending will continue to be opportunistic as CBG intends to maximize asset growth and yields to support the Bank.

The Cash Management and Digital Channels Division through its Corporate Internet Banking (CIB) facility, the Bank's corporate cash management platform, continued to expand its suite of payment and liquidity management solutions for the non-retail market. Noteworthy of these new solutions is the Direct ADA (Auto Debit Arrangement) which handled 1,433 transactions amounting to PHP1.23 billion since its inception in March 2017. The CIB's non-retail customer count reached 508 clients by end of 2017, a 61.27% jump from 2016's end customer base. These clients contributed a combined Year-To-Date CASA deposit ADB of PHP7.39 billion.

CONSUMER GROUP

The Bank's Consumer Loans portfolio grew 31% with a total of PHP8.9 billion in housing, auto, and salary loans. The steady growth resulted from the implementation of strategic and organizational reinforcements to further increase the Bank's Consumer Loan business.

The Consumer Lending Group follows a focused, two-way management approach to achieve this goal: the Auto Loan and Home Loan Departments deliver on strengthening business relationships with dealers and developers while the Organic Channels Division is tasked to service, support, and process applications from the branches.

In 2017, the Bank's auto loan portfolio increased by 21% from PHP2.4 billion to PHP2.9 billion. Contributing to consistent performance in recent years, the branch network continued to leverage on its client base while strengthening partnerships with car dealers.

Home loans grew more than 41%, from PHP3.7 billion to PHP5.3 billion. Diverse business partners from the real estate development industry and branch network referrals served as the main drivers for consistent growth in the business segment.

In order to sustain growth in the years ahead, the Consumer Group will focus on building partnerships with more business players, developing a more systematic approach in loan processing, improving backroom operations, introducing attractive promos, and expanding its reach through technology-aided applications and providers. The Consumer Group will also need to continue its coordination with the Branch Banking Group to enhance client origination.

CREDIT CARD UNIT

The Credit Card portfolio grew 33% in 2017, following the year-on-year increase since the Bank of Commerce Mastercard Credit Card was launched in 2014. Promotional merchant tie-ups, seasonal usage campaigns, and flexible payment terms contributed to an increase in card spend by 65% and gross income by 66% compared to the same period last year.

Top-of-the-line card products were designed to cater to the affluent segment of the Bank's Credit Card business. The Bank introduced the Priority Access Platinum Mastercard for existing high-net worth clients and completed the development of Bank of Commerce World Mastercard which offers premium global benefits such as Airport Lounge Access, Mastercard Concierge, Airport Limousine Service, and other cardholder privileges in leading hotels worldwide.

To further enhance card security measures, the migration to EMV (Europay, Mastercard, and Visa) chip card from magstripe was completed in September 2017. For additional protection from fraud and identity theft for online purchases, the Online Protect feature was also launched in 2017. This is a feature that provides a one-time password before checking out of online shopping transactions.

Bank of Commerce Credit Card stressed the importance of using paperless statements for monthly billings. Under our E-SOA facility, cardholders can opt to receive their monthly statements via email instead of courier delivery in a timely and convenient manner. In 2017, more cardholders were encouraged to enroll in E-SOA, which will result in savings in printing and delivery costs.

INTERNATIONAL OPERATIONS DIVISION

The International Operations Division (IOD) achieved a 41% increase in transaction volume and a 28% increase in the amount of Overseas Filipino Worker (OFW) remittances in 2017. This strong performance elevated the potential of the Bank's remittance business to reach higher levels of significance in a competitive market.

For 2017, IOD deployed its in-house developed bRemit System to all Bank of Commerce branches. This system allows branches to accept and pay out cash pick-up transactions between Bank of Commerce branches, credit Bank of Commerce accounts in real time, and remit to other banks' accounts on the same day. Through this system, the Bank was granted accreditation by the Social Security System (SSS) as an E-Collection Agent under its Electronic Payment System. Bank of Commerce is one of the four banks accredited by SSS to accept payments from members and employers here and abroad.

With the continuing and growing partnership from countries to further reach out to OFWs around the world, Bank of Commerce signed an agreement with Bank Al Jazira-FAWRI, located in the Kingdom of Saudi Arabia, to process remittances. The Bank also recently renewed its contract with Peragram for the payout fulfilment of incoming remittances from all over the world through Moneygram. Bank of Commerce signed up with WorldCom Finance, a customer-oriented company specializing in developing internet platforms for instant money transfer from Israel, United Kingdom, and Hong Kong.

In 2018, IOD targets an increase in transaction volume with the new domestic and foreign business partnerships, offering new products and services such as Bills Payment for OFWs, Domestic Cash Remit for Partners, and Domestic Remit to Account.

TREASURY MANAGEMENT GROUP

The year 2017 proved to be a tough year for financial markets. Uncertainties in policy implementation by new administrations in the USA and in the Philippines ushered in new challenges in navigating the foreign exchange and fixed income markets. On top of this, global economic growth and interest rate normalization remained at the background. Volatility went down as market players were relegated to a wait-and-see stance for the most part of the year, which presented less trading opportunities.

Given this backdrop, Treasury continued to be cautious in its buying and selling activities. Moreover, the downside risk remained magnified by a rising interest rate scenario. Focus shifted instead on flows business, particularly in the exchange of foreign currencies. The FX desk concentrated on forging FX business synergy with the Bank's clients and partners. At the same time, it continued to be vigilant on the changing landscape of domestic and foreign economies and its effect on currencies, allowing it to take advantage of the swings in the foreign exchange market.

Vigilance was also important to spot the few opportunities in the bond market in 2017. The fixed income trading desk was able to capitalize on the sporadic rally in the local government securities market. Meanwhile, foreign interest rate trading put more attention on more liquid US Treasuries. Money management strategies were also employed along the way to protect gains realized by the team. To further contribute to the Bank's bottom line, accrual income was bolstered by repopulating the Bank's held-to-maturity portfolio. This move allowed the Bank to generate interest income while keeping its exposure on price risk in check.

The rising interest rates likewise put pressure on the Bank's cost of funds. Its management became crucial in maintaining the Bank's competitive presence in its chosen markets.

TRUST SERVICES DIVISION

True to 2017's thrust on sustainability, Trust Services Division (TSD) has built a larger client base, increasing Asset Under Management (AUM) and significant growth in net income to highlight its 2017 performance. TSD has invested on strategic positioning specific to accounts retention, new and long-term business, diversified investment outlets, high-margin products/services, and cost-saving initiatives which realized an impressive three-year Compounded Annual Growth Rate of 43% in net income, closing the year at PHP50 million. AUM has steadily grown to PHP24.7 billion with Investment Management Accounts (IMA) supporting the volume at 93% or PHP22.9 billion on a three-year CAGR of 12%.

TSD's unified efforts this 2018 shall revolve around active servicing of clients, dynamic asset sourcing, and product development while riding the wave of a changing industry landscape, capital market developments, investment-oriented public, and opportunity to capitalize on a rich growing economy.

SUPPORT INITIATIVES

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT DIVISION

In 2017, the Bank continued with its core, functional, and leadership programs, but emphasis was given to the further strengthening of its Senior Management Team. This was done through an extensive leadership development program which was conducted over a span of five months, undertaken in partnership with John Clements Consultants, Inc. This program focused on Strategic Thinking and Execution, Customer Centricity, Innovation, Digitalization, Financial Technology, and Leadership Transformation.

The program took a blended learning approach where learning resources used were from the Harvard Business School case studies and articles. Case analyses were facilitated by foreign and local discussion leaders. Participants presented their action learning projects at the end of the 15-day program, and a number of these projects were considered by Management for further assessment and implementation.

After the thorough Job Evaluation (JE) exercise which commenced in 2016, the Job Evaluation Committee completed the assessment of 100% of the jobs in April 2017 which was approved by Management for implementation on June 1, 2017.

The Bank also invested in a new Human Resource Information System (HRIS), aimed at providing a more precise and system-based management of its HR processes.

The HRIS is to be implemented in phases or modules which include personnel information, recruitment management, performance management, timekeeping, payroll processing, and employee self-service. Development started in the last quarter of 2017 with the payroll module expected to be operational by the 2nd quarter of 2018.

INFORMATION TECHNOLOGY SERVICES DIVISION

The Information Technology Services Division (ITSD) provided support for the operational requirements of the Bank as technology becomes a centralized force in all of the Bank's digitally synergistic services delivered for the customers' ultimate satisfaction.

In 2017, ITSD was involved primarily in system, IT upgrade, automation, and security enhancements.

ITSD delivered major regulatory and BSP-mandated projects such as the full implementation of the Check Imaging Clearing System (CICS), Financial Reporting Package System (FRPS), BDS recompilation and upgrade of BDS Server to Windows 2012 and BDS Workstation to Windows 7 across 136 branches. ITSD also managed the completion of Europay, Mastercard, and Visa (EMV)-related projects, namely, BancNet Terminal Integration Certificate (TIC), deployment of Smartvista (SV), and ATOS interface, CASUI migration file for identified Head Office employees, PIN mailer print production, and conversion of ATMs.

Income-generating initiatives, such as the domestic front-end bRemit System and RFID, were given full backup in all areas of IT-related development. ITSD has also supported collaborations with the burgeoning Fintech industry (Lendr.com and Coins.ph). In line with providing support for external client requirements, ITSD is continuously developing electronic payment and fund transfer systems for Cash Management, Consumer Lending Group, Branch Banking Group, and Product Development.

Upgrading security was among the top concerns in a riskier IT-financial landscape. ITSD ensured that the Bank's security measures were not only in place but also modernized and equipped to withstand online threats and counterfeit schemes. Among the upgrades were Anti-Virus and Ransomware patches, SWIFT infrastructure updates, data communication enhancements, hardware infrastructure upgrades, and other regular security features and updates for continuous protection against new security attacks.

Moving towards a customer-centric digital banking practice in 2018, ITSD will manage the completion of the Data Integration Platform (DIP), Mobile Internet Banking (MIB), Corporate Website, ROPA automation, and the in-house HR Package Payroll System.

From this year onwards, ITSD will continue to assist in the Bank's masterplan to transform into a digital platform.








CORPORATE Social Responsibility

The vision of Bank of Commerce to help its customers achieve a brighter future is likewise reflected in its commitment to effecting a positive change in society through the numerous corporate social responsibility (CSR) initiatives that were laid out the past year. Community development and volunteerism, the thrusts that continue to drive the Bank, perfectly summed up the efforts shown by its compassionate employees who inspired community members to help themselves in working harder to improve their lives.

The Bank's 2017 CSR efforts centered on a wide variety of activities that focused on providing better opportunities and services for those in need and elevating their quality of life. In partnership with highly respected institutions, the Bank was able to further expand the help and assistance it initially provided the communities and strongly showcased the inherent bayanihan spirit among its employee-volunteers.

TEAM MALASAKIT

The Bank's solid partnership with San Miguel Foundation in making a positive impact in the communities continued with their joint efforts to bring to fruition the objectives of the Team Malasakit initiatives. Bank volunteers were given the opportunity to serve and give a helping hand to underprivileged communities through two important CSR programs.

Habitat for Humanity

House-Build Activity in Calauan, Laguna

The Bank's employee-volunteers from Calamba and San Pedro branches came together to participate in a house-painting activity at the National Housing Authority (NHA) community in Calauan, Laguna. Participants helped in the painting and refurbishing of the façade and interiors of the low-cost houses of former homeless and informal settlers.

Brigada Eskwela

Bagong Silangan Elementary School, Batasan Hills, Quezon City

2017 marked the second year that Bank of Commerce and San Miguel Foundation participated in the Department of Education's (DepEd) Brigada Eskwela project. The activity was the biggest annual CSR event organized by the foundation in terms of volunteer count.

For this activity, employee-volunteers worked together to refurbish three classrooms at the Bagong Silangan Elementary School in Batasan Hills, Quezon City, as well as participated in the repainting of classrooms and cleanup of the entire school.

Brigada Eskwela provided employee-volunteers a chance to do their share in giving today's students a comfortable space that is more conducive for learning as they welcomed school year 2017-2018. Brigada Eskwela is part of DepEd's Adopt-A-School Project, which invites companies and organizations to support public senior high schools in the implementation of the K-12 program.

Happy Si Mommy, Malusog Si Baby Livelihood Project

San Fernando, Pampanga; Bacolod, Negros Occidental; and Barangay Darong, Davao del Sur

A pilot project of the San Miguel Foundation, the Happy Si Mommy, Malusog Si Baby livelihood project aimed to address the stunting growth of children in San Miguel communities. In collaboration with Bank of Commerce, the foundation's objective was to raise awareness among expectant mothers through an information education campaign that underscores the importance of the first 1,000 days of pregnancy. The campaign provided would-be moms an opportunity to ensure the health, well-being, and cognitive development of their developing babies.

Through the project, 108 expectant mothers benefited from the lectures and workshops given by experts which touched on topics like maternal and child care and cooking, as well as other subjects that can help boost their current living conditions such as backyard gardening and livelihood training. The project was implemented from July to December 2017 in communities located in San Fernando, Pampanga; Bacolod, Negros Occidental; and Barangay Darong, Davao del Sur.

The Happy Si Mommy, Malusog Si Baby livelihood project received positive feedback from community participants, garnering a 98% attendance rate every month. Participants likewise showed great interest in the livelihood training and cooking demonstrations conducted, based on the survey ran by the foundation in December 2017.

WORLD VISION

Community-Managed Savings and Credit Association (CoMSCA)

Laurel, Batangas

Bank of Commerce's three-year CSR collaboration with World Vision culminated in 2017 by continuing the Community-Managed Savings and Credit Association (CoMSCA) project, a system designed to create a local pool of capital that can be accessed by members in lump sums for whatever important need they may have. Members can use this fund to meet predictable expenses, reduce shocks to vulnerable livelihoods, facilitate household cash-flow management, or make short-term investments on income-generating activities. The project supported a CoMSCA community in Molinete, Laurel, Batangas.

As a complementary program to the CoMSCA, Bank of Commerce and World Vision also helmed CoMSCA Children, a program for children of the same community which aims to help them manage their own savings. Through this program, children learn the value of saving while giving them the opportunity to help their parents financially through saving with CoMSCA.

The CoMSCA and CoMSCA Children programs are expected to generate positive results that include creating livelihood opportunities through an increase in family income, improving and sustaining the health of families, enhancing the ability of families to send their kids to school, developing leaders that can encourage community participation, building disaster-resilient communities, and boosting community members' sense of ownership and accountability. To date, around 553 community members from Molinete have already benefited from the project.

The first two years of the project helped contribute to the economic development of Batangas through the creation of CoMSCA groups. From the original target of six, the groups have grown to 30, which resulted in helping the communities generate additional resources for their families to meet their basic, education, and healthcare needs, as well as their business ventures.

Moreover, community members were able to share what they have learned from the program as CoMSCA Agents. About 42 community members attended the series of CoMSCA Agent training that were held from January to June 2017. On top of this, the CoMSCA Congress was held in April 2017 where participants were able to share and learn from one another using CoMSCA's best practices.

INTERNATIONAL CARE MINISTRIES FOUNDATION, INC. (ICMFI)

Transform Program

Bacolod, Negros Occidental; Tagbilaran, Bohol; and Roxas City, Capiz

For the third consecutive year, Bank of Commerce partnered with International Care Ministries Foundation, Inc. (ICMFI) to support the latter's Transform program. Organized under the Bank's Community Development Program, Transform aims to strengthen families living in ultrapoverty by empowering them through a life-skills, capacity-building course designed to meet their needs.

Families in ultrapoverty live on less than P24 per day and reside in inadequate, crowded shelters. They suffer from chronic hunger and malnutrition, and lack of access to support networks that could help them.

Communities in Bacolod, Tagbilaran, and Roxas City benefited from the intensive 16-week course designed to establish new networks of support and social cohesion for the poor; provide "VHL" education to strengthen the families' Values (promote character qualities that underpin intact families), Health (improve primary health knowledge and practices), and Livelihood (provide financial literacy and job-skills training for sustained income generation); and distribute nutrition supplements, medical kits, and livelihood resources for new skills.

Employee volunteerism was definitely alive as Bank employees happily participated in the meal-packing activity and the distribution of meal packs to Transform communities. Not only were they generous in lending their time but their money, too, as they voluntarily donated financial help to raise more nutritious meal packs to top the previous year's. The employees' personal donation helped in alleviating malnutrition in the ultrapoor communities.

CORPORATE Governance

MANUAL ON CORPORATE GOVERNANCE

The Manual on Corporate Governance was adopted pursuant to Securities and Exchange Commission (SEC) Memorandum Circular No. 6 Series of 2009 and Section X141 of the Manual of Regulations for Banks, as amended. It is updated every year or as often as needed for significant changes in laws and regulations or best industry practices. Its recent amendment, following the issuance of BSP Circular 969, The Enhanced Corporate Governance Guidelines for BSP Supervised Financial Institutions, was approved by the Bank's Board of Directors in January 2018. The Manual also incorporates the applicable provisions of the General Banking Law of 2000.

The Manual contains the principles of sound corporate governance which shall be adhered to by all directors, officers, and employees of Bank of Commerce as they discharge their respective duties and responsibilities. It emphasizes the Board of Directors' commitment to prudently manage the Bank, thereby preserving the trust and confidence reposed on it by its clients and other stakeholders. It is a valuable reference in the implementation of sound governance policies and practices, and serves as a guide to the attainment of the Bank's vision, mission, and strategic objectives.

The Manual on Corporate Governance highlights the Board of Directors' duties and responsibilities to ensure that the Bank is run in a sound and prudent manner. It also contains the qualification of directors/independent directors, as well as their mandated duties and responsibilities.

Cognizant that transactions between and among related parties create business synergy and economic benefits, a policy on dealings with related parties was adopted which included the creation of a Board-level Related Party Transactions Committee (RPTCom) in 2014, preceding the regulatory mandate for an overarching policy on handling related party transactions under BSP Circular 895 of 2015 and BSP Circular 969 of 2017. The policy provides guidelines on the definition of a Related Party Transaction and who are to be considered Related Parties of the Bank. It also includes San Miguel Corporation's conglomerate structure and a database of the Bank's related parties which concerned business unit can use as reference in determining if an account is a Related Party. The policy also defines guidelines for handling related party transactions, including managing of conflicts of interests or potential conflicts of interests to ensure that related party transactions are entered into on arm's length basis and are consistent with the interest of the Bank and its shareholders. The policy sets the limits and materiality thresholds for Related Party Transactions to be vetted by the RPTCom and approved by the Board. The Bank's RPT policy and database of Related Parties are updated annually or as often as necessary to incorporate changes pursuant to regulatory issuances.

BOARD GOVERNANCE

The Board of Directors (the Board) is primarily responsible for the sound governance of the Bank. Setting the tone from the top, it approves and oversees the implementation of the Bank's strategic objectives. Corollary to setting the policies for the accomplishment of corporate objectives, it also provides an independent check on Management. It is the Board's responsibility to foster the long-term success of the Bank, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of the stockholders and other stakeholders.

BOARD OF DIRECTORS

The Bank's Board of Directors is comprised of fifteen (15) members, where five (5) of the total Board seats are independent directors. This number of independent directors is compliant with the representation of independent directors required by the BSP and SEC. The Board is a healthy mix of individuals with diverse experiences, backgrounds, and perspectives. The membership of the Board is a combination of executive and non-executive directors such that no director or small group of directors dominates the decision-making process. All directors were chosen based on their qualifications, namely, integrity, probity, market reputation, conduct and behavior, relevant education and training, physical and mental fitness, knowledge, and experience. All directors possess such qualifications and stature that enable each of them to effectively participate in the deliberations of the Board.

An Independent Director is one who, apart from the required minimum shareholding, is independent of management and free from any business or other relationship, other than transactions which are conducted at arm's length that could interfere with his exercise of independent judgment when carrying out his responsibilities as a director. Further, an Independent Director is not a retained professional adviser or consultant, not a nominee of any director or substantial stockholder, or member of any advisory board. An Independent Director only serves as such for a maximum cumulative term of nine (9) years reckoned from 2012, after which, he shall be perpetually barred from serving as an Independent Director but may continue to serve as a regular director.

The Board has adopted guidelines on the maximum number of directorships that its members can hold, taking into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities as director of the Bank.

Pursuant to SEC Advisory dated 31 March 2016, independent directors elected in 2012 may be reelected as such until 2017, when the two (2) year cooling-off period shall commence.

If there are no suitable replacements, said independent directors may be reelected in 2017 until 2021, at which time, they may no longer be qualified as independent directors for the same companies.

The said reelection in 2017 until 2021 shall be with prior written notice and justification from the SEC.

A Director's office, being one of trust and confidence, is expected to act in the best interest of the Bank and in a manner characterized by transparency, accountability, and fairness. As a member of the Board upon which the corporate powers of the Bank is bestowed and exercised, and through which the Bank's strategic objectives, risk strategy, corporate governance and corporate values are set, a Director should exude leadership, observe prudence, exercise sound and objective judgment, and maintain integrity in directing the Bank towards sustained progress. The Board formulates the Bank's vision, mission, strategic objectives, policies, and procedures that guide its activities, including the means to effectively monitor Management's performance.

To effectively carry out their duties and responsibilities, the members of the Board are required to attend a program on corporate governance conducted by a duly accredited training provider by the BSP. The Board has likewise adopted a policy on continuing education and training across all segments of the Bank's manpower complement, commensurate with their duties and responsibilities. This is in order to keep abreast with developments in the banking industry, ensure that skills and knowledge remain relevant, and that requirements of the law, rules, and regulations are understood and complied with.

For the year 2017, the Board held twelve (12) meetings.

Composition	Attendance	%
Jose T. Pardo, *Chairman/Independent*	12/12	100%
Francis C. Chua, *Vice-Chairman*	11/12	92%
Roberto C. Benares, *President/CEO*	12/12	100%
Amor C. Iliscupidez	12/12	100%
Marito L. Platon	12/12	100%
Carolina G. Diangco	12/12	100%
Melinda Gonzales-Manto, *Independent*	11/12	92%
Aniano A. Desierto, *Independent*	12/12	100%
Benedicta Du-Baladad	10/12	83%
Fe B. Barin	11/12	92%
Alexander R. Magno	12/12	100%
Jose C. Nograles, *Independent*	12/12	100%
Rebecca Maria A. Ynares, *Independent*	10/12	83%
Mariano T. Katipunan Jr.*	5/5	100%
Ronnie U. Collado*	5/7	71%
Ramon A. De La Llana**	7/7	100%
Rolando L. Macasaet**	3/5	60%

** Director Katipunan was replaced by Director Collado who was elected in June 2017*
*** Director Macasaet was elected as Member in August 2017 to replace Director De La Llana*

SECURITY OWNERSHIP OF DIRECTORS

Name of Director	Number of direct and indirect shares held	Number of Years served	Percentage of Shares	Changes in the Composition
Jose T. Pardo	1	14	0.00%	
Francis C. Chua	1	9	0.00%	
Roberto C. Benares	1	4	0.00%	
Amor C. Iliscupidez	1	9	0.00%	
Marito L. Platon	1	7	0.00%	
Carolina G. Diangco	1	5	0.00%	
Melinda Gonzales-Manto	1	4	0.00%	
Aniano A. Desierto	1	4	0.00%	
Benedicta Du-Baladad	1	3	0.00%	
Fe B. Barin	1	3	0.00%	
Alexander R. Magno	1	3	0.00%	
Jose C. Nograles	1	1	0.00%	
Rebecca Maria A. Ynares	1	1	0.00%	
Ronnie U. Collado	1	6 months	0.00%	Elected in June 27, 2017
Ramon A. De La Llana	1	4	0.00%	Resignation-August 29, 2017
Rolando L. Macasaet	1	4 months	0.00%	

BOARD COMMITTEES

The Board has constituted the following committees to assist it in its supervision over the Bank's activities and to guide Management in implementing sound corporate governance: Executive Committee; Audit Committee; Board Risk Oversight Committee; Corporate Governance Committee; Nominations, Compensation, and Remuneration Committee; Trust and Investment Committee; and Related Party Transactions Committee. These committees regularly convene as mandated in their respective Charters. In the appointment of members of each committee, knowledge, skills, training, and experience, among others, are considered to ensure an optimal mix of knowledge and experience to allow the members to fully understand, be critical, and objectively evaluate the issues and promote healthy and objective discussions.

EXECUTIVE COMMITTEE

The Executive Committee is empowered to approve and/or implement all corporate acts within the competence of the Board of Directors (BOD) except those acts expressly reserved by the Corporation Code for the Board of Directors.

The Committee is composed of five (5) members and held twenty-seven (27) meetings in 2017.

Composition	Attendance	%
Francis C. Chua, *Chairman*	22	81%
Roberto C. Benares, *President/CEO*	21	78%
Amor C. Iliscupidez	26	96%
Carolina G. Diangco	24	89%
Fe B. Barin	26	96%

AUDIT COMMITTEE

The Audit Committee oversees the institution's financial reporting policies and practices, and controls the internal and external audit functions.

The Committee is composed of five (5) members, three (3) of whom, including the committee chairman, are independent directors. It held twelve (12) regular meetings in 2017.

Composition	Attendance	%
Melinda Gonzales-Manto, *Chairman/Independent*	12	100%
Jose C. Nograles, *Independent*	12	100%
Benedicta Du-Baladad	10	83%
Ramon A. De La Llana*	8	100%
Rolando L. Macasaet**	3	75%
Mariano T. Katipunan Jr.***	4	67%
Ronnie U. Collado****	4	67%

** Replaced as Member in August 2017*
*** Appointed as Member in August 2017*
**** Replaced as Member in June 2017*
***** Appointed as Member in June 2017*

BOARD RISK OVERSIGHT COMMITTEE

The Board Risk Oversight Committee (BROC) is responsible for the development and supervision of the risk management program of the Bank and its trust unit.

The Committee is composed of five (5) members, majority of whom are independent directors. Its chairman is a non-executive director. It held twelve (12) meetings in 2017.

Composition	Attendance	%
Marito L. Platon, *Chairman*	12	100%
Roberto C. Benares, *President/CEO*	7	58%
Melinda Gonzales-Manto, *Independent*	12	100%
Benedicta Du-Baladad	10	83%
Jose C. Nograles, *Independent*	12	100%

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee (CGCom) assists the Board in fulfilling its corporate governance responsibilities. It is responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines across all levels of the Bank's personnel.

The Committee is composed of five (5) members, majority of whom, including the committee chairman, are independent directors. It held twelve (12) meetings in 2017.

Composition	Attendance	%
Jose T. Pardo, *Chairman/Independent*	12	100%
Marito L. Platon	12	100%
Jose C. Nograles, *Independent*	12	100%
Fe B. Barin	11	92%
Mariano T. Katipunan Jr. *	4	80%
Ronnie U. Collado**	5	71%

* *Replaced as Member in June 2017*
** *Appointed as Member in August 2017*

NOMINATIONS, COMPENSATION, AND REMUNERATION COMMITTEE

The Nominations, Compensation, and Remuneration Committee (NCRC) reviews and evaluates the qualifications of all persons nominated to the Board, as well as those nominated to other positions requiring appointment by the Board.

The Committee is composed of five (5) members, two (2) of whom, including the committee chairman, are independent directors. It held nine (9) meetings in 2017.

Composition	Attendance	%
Jose T. Pardo, *Chairman/Independent*	9	100%
Amor C. Iliscupidez	9	100%
Aniano A. Desierto, *Independent*	9	100%
Alexander R. Magno	9	100%
Ramon A. De La Llana*	5	71%
Rolando L. Macasaet**	2	100%

* *Replaced as Member in September 2017*
** *Appointed as Member in September 2017*

TRUST AND INVESTMENTS COMMITTEE

The Trust and Investments Committee (TIC) is primarily responsible for overseeing the trust and other fiduciary activities of the Bank.

The Committee is composed of five (5) members, three (3) of whom are non-executive directors, including its chairman who is an independent director, the President of the Bank who is also a director, and the Bank's Trust Officer. It held twelve (12) meetings in 2017.

Composition	Attendance	%
Jose T. Pardo, *Chairman/Independent*	12	100%
Roberto C. Benares, *President/CEO*	12	100%
Amor C. Iliscupidez	12	100%
Alexander R. Magno	12	100%
Amalia Q. Belarmino, *Trust Officer-In-Charge*	8	67%

RELATED PARTY TRANSACTIONS COMMITTEE

The Related Party Transactions Committee (RPTCom) assists the Board in fulfilling its responsibility of ensuring that transactions with related parties are handled in an efficient and prudent manner, with integrity, and in compliance with relevant laws and regulations to protect the interest of depositors, creditors, and other stakeholders.

For this purpose, the RPTCom evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. It likewise evaluates all material RPTs to ensure that these are not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under identical circumstances.

The Committee is composed of five (5) members, all of whom are independent and non-executive directors. Majority of the Committee members, including the committee chairman, are independent directors. It held eleven (11) meetings and one (1) special meeting in 2017.

Composition	Attendance	%
Aniano A. Desierto, *Chairman/Independent*	12	100%
Melinda Gonzales-Manto, *Independent*	12	100%
Marito L. Platon	12	100%
Carolina G. Diangco	11	92%
Rebecca Maria A. Ynares, *Independent*	10	83%

THE CORPORATE SECRETARY

The Corporate Secretary plays a significant role in ensuring that the Board is able to deliver its responsibilities. The Office of the Corporate Secretary prepares the agenda and sends out the required notices and the materials for discussion prior to the meeting, and distributes the minutes of the previous meeting. The Office is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the Bank.

Loyal to the mission, vision, and objectives of the Bank, the Corporate Secretary must work fairly and objectively with the Board, Management, stockholders, and other stakeholders. He should be aware of the laws, rules, and regulations essential to the performance of his duties and responsibilities, and should ensure that all the Board procedures, rules, and regulations are strictly followed by the members.

THE COMPLIANCE OFFICER

The Board appointed a Chief Compliance Officer (CCO) who reports to the Board of Directors through the Corporate Governance Committee. The CCO is responsible for coordinating, monitoring, and facilitating compliance with existing laws, rules, and regulations. As such, he should have the skills and expertise to provide appropriate guidance and direction to the Bank on the development, implementation, and maintenance of the Compliance Program. The CCO is delegated with appropriate authority and provided with appropriate support and resources to ensure that compliance with laws, rules and regulations, and observance of best practices are carried out by the entire Bank. If any breach or violation of significant regulation is found, the matter is reported to the appropriate level of management or to the Board, together with appropriate recommendations to prevent recurrence and the necessity of imposing disciplinary action, when called for.

CHIEF RISK OFFICER

The Board also appointed a Chief Risk Officer (CRO) who is independent from executive, operations, and revenue-generating functions within the Bank and possesses sufficient stature and authority within the Bank. Without compromising his independence, the CRO shall have the ability to engage in discussion with the Board, Chief Executive Officer, and other senior management members on key risk issues and to access such information as he deems necessary to form his judgment. The CRO has direct access to the Board and reports at least monthly to the Board Risk Oversight Committee. The CRO is responsible for identifying, measuring, and monitoring key risk exposures and for assessing whether decisions to accept particular risks are consistent with the risk appetite approved by the Board.

BOARD PERFORMANCE AND EVALUATION

The Board holds monthly meetings to enable directors to discharge their mandated duties and responsibilities of overseeing and monitoring the implementation of the Bank's strategic objectives and ensuring that its business is consistently carried out with compliance and corporate governance standards. Special meetings are also held from time to time as the need arises. In addition to the Board meetings, the directors attend the meetings of their respective Board Committees.

The Board of Directors annually assesses its performance and effectiveness as a body, as well as the various committees and the individual director through self, peer, committee, and board evaluation system facilitated by the Corporate Governance Committee.

REMUNERATION FOR DIRECTORS AND OFFICERS

The Bank observes overall compensation program on par with industry standards and aligned with the requirements of labor laws, rules, and regulations. The program considers performance and is commensurate with the individual's qualifications, experience, and expertise. Corollary to this, the Bank utilizes data gathered from industry survey to ensure that remuneration packages of the Bank's directors, senior executives, and officers are within industry standards.

Directors are entitled to per diem allowance for their attendance at Board of Directors and Board Committee meetings. The Bank ensures these allowances are on par with peer banks. Likewise, employee performance is recognized through periodic performance assessments. This process provides the measure for commensurate salary increases and performance bonuses.

As provided for in the Bank's By-Laws, dividends may be declared from the surplus profits arising from the business of the Bank at such time and in such percentage as the Board of Directors may deem proper. No dividends may be declared that will impair the capital of the Bank and Stock dividends shall be declared in accordance with the law.

REMUNERATION AND SUCCESSION PLAN/PROGRAM

The Bank has a sustainable succession planning program in place. Each year, incumbents are assessed on their readiness to assume senior management positions. The Human Resource Management and Development Division (HRMDD) sends an evaluation form to the Group/Division Heads of each unit requesting them to identify and assess their successors.

The collated succession Table of Organization/Plan of the Bank is being presented to the Nominations, Compensation, & Remuneration Committee (NCRC) and to the Board for notation.

The Bank has an existing retirement program for its employees. Every regular and permanent employee is entitled to the retirement benefits under the program in accordance with the conditions applicable at the time of the employee's separation from the Bank which may be due to normal retirement, early/optional retirement, death, permanent and/or total disability, or separation. The Bank bears the full cost of providing the benefits in the Plan.

ADEQUATE AND TIMELY INFORMATION

Complete, adequate, and timely information on matters to be taken up during Board and committee meetings is important to enable the members of the Board to properly fulfill their duties and responsibilities. The information allows them to address matters at hand and participate in exchanges and discussions during meetings in order to arrive at informed decisions. Prior to Board and committee meetings, members of the Board are provided with the required information. They are given independent access to the Management and Corporate Secretary at all times for the proper discharge of their functions.

FINANCIAL REPORTING CONTROLS AND AUDIT

The Board envisions to protect shareholders' value through adequate internal controls. Thus, the Board encourages a collaborative setting that fosters and encourages a corporate environment of strong internal controls, sound fiscal accountability, high ethical standards, and compliance with laws, rules and regulations, and codes of conduct.

The Board also has a bounden duty to its shareholders to present a balanced and understandable assessment of the Bank's performance and financial position. Specifically, the Board commits to accurate Financial Reporting, Transparency, robust Internal Control, and adherence to accepted Accounting Standards and Auditor Independence.

STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTEREST

The Board respects the rights of the stockholders as provided for in the Corporation Code and ensures that they can freely vote on all matters that require their consent or approval, exercise their preemptive right to all stock issuances of the Bank, inspect the Bank's books and records, and access information on dividends and appraisal right. The Board likewise promotes transparency, accountability, and fairness to stockholders of the Bank. It remains cognizant of its responsibility to foster the long-term success of the institution, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of its stockholders.

STAKEHOLDERS

Beyond preservation of the financial value of the Bank, the Board recognizes the needs of its other stakeholders such as its customers, creditors, suppliers/contractors, personnel, and the community at large. The Board has formulated policies that prioritize customer needs, promote consumer protection, rationalize selection and evaluation of suppliers/service providers, and develop employees' potentials through continuing education, leadership training, and seminars. The Bank has adopted policies that created an open channel of communication for the Bank's various stakeholders, so they can express their concerns and other views to the Bank. It recognizes their rights as mandated by law and encourages their active participation in promoting financially sound and socially responsible endeavors.

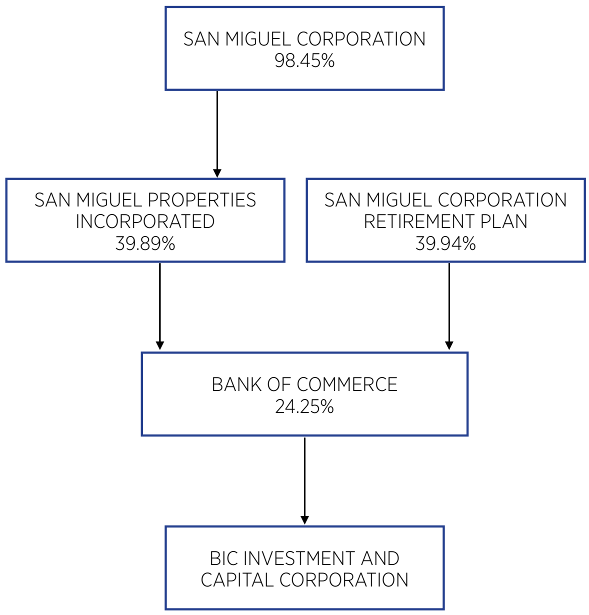
CODE OF ETHICS AND STANDARDS

The Board upholds the Bank's Code of Conduct. It regularly reviews this Code, updates it whenever necessary, and communicates it to all the officers and employees of the Bank. It ensures that compliance of this Code is incorporated in the Bank's performance assessment system.

DISCLOSURE AND TRANSPARENCY

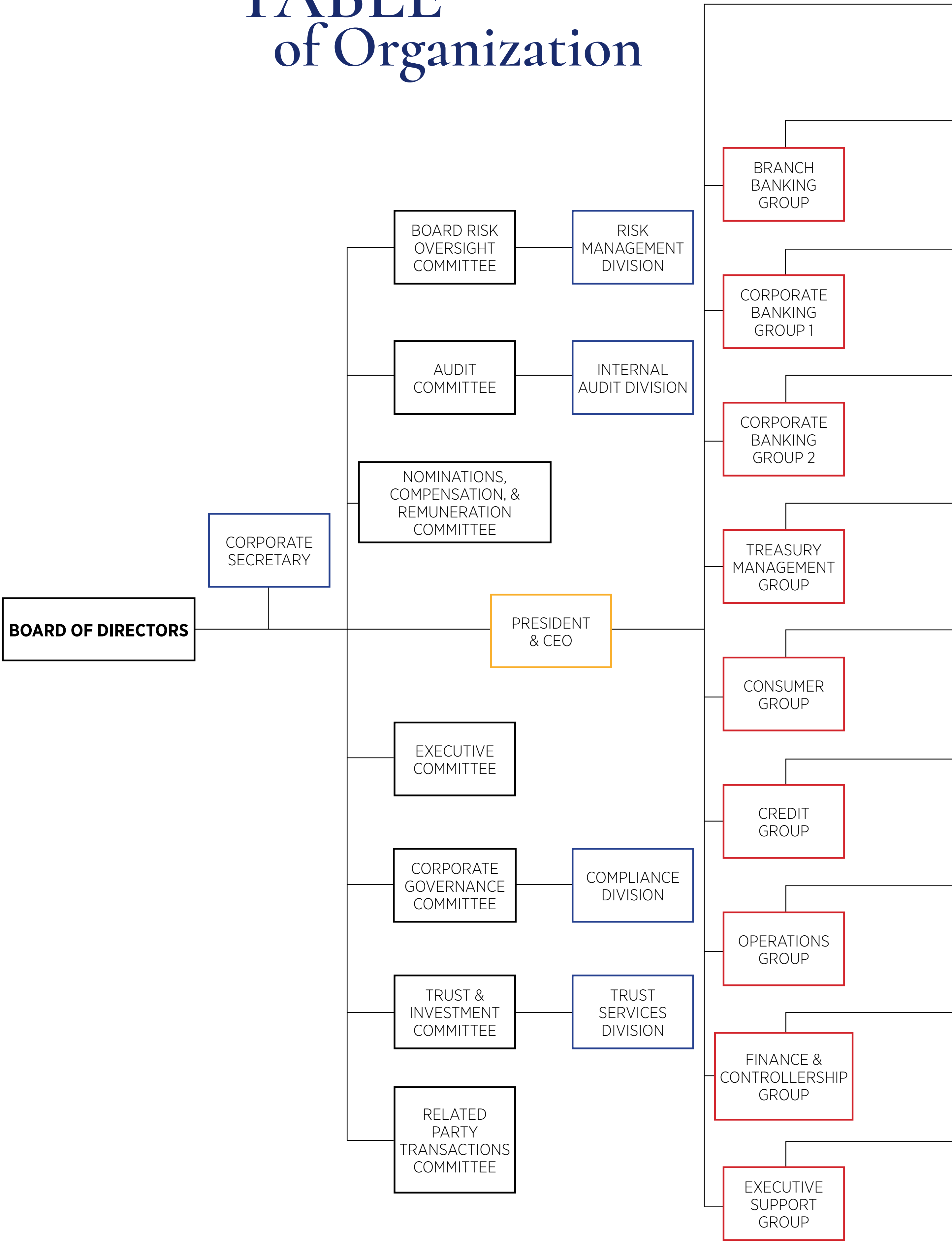
The Board commits to transparency and disclosure such that all essential and material information about the Bank which could adversely affect its viability or the interest of its stockholders and other stakeholders shall be adequately and timely disclosed. Aside from information and reports required by the BSP and the SEC to be published, information like earnings result, acquisition or disposition of assets, off-balance sheet transactions, related party transactions, and other indirect remuneration of members of the Board and Management, among others, shall remain disclosed.

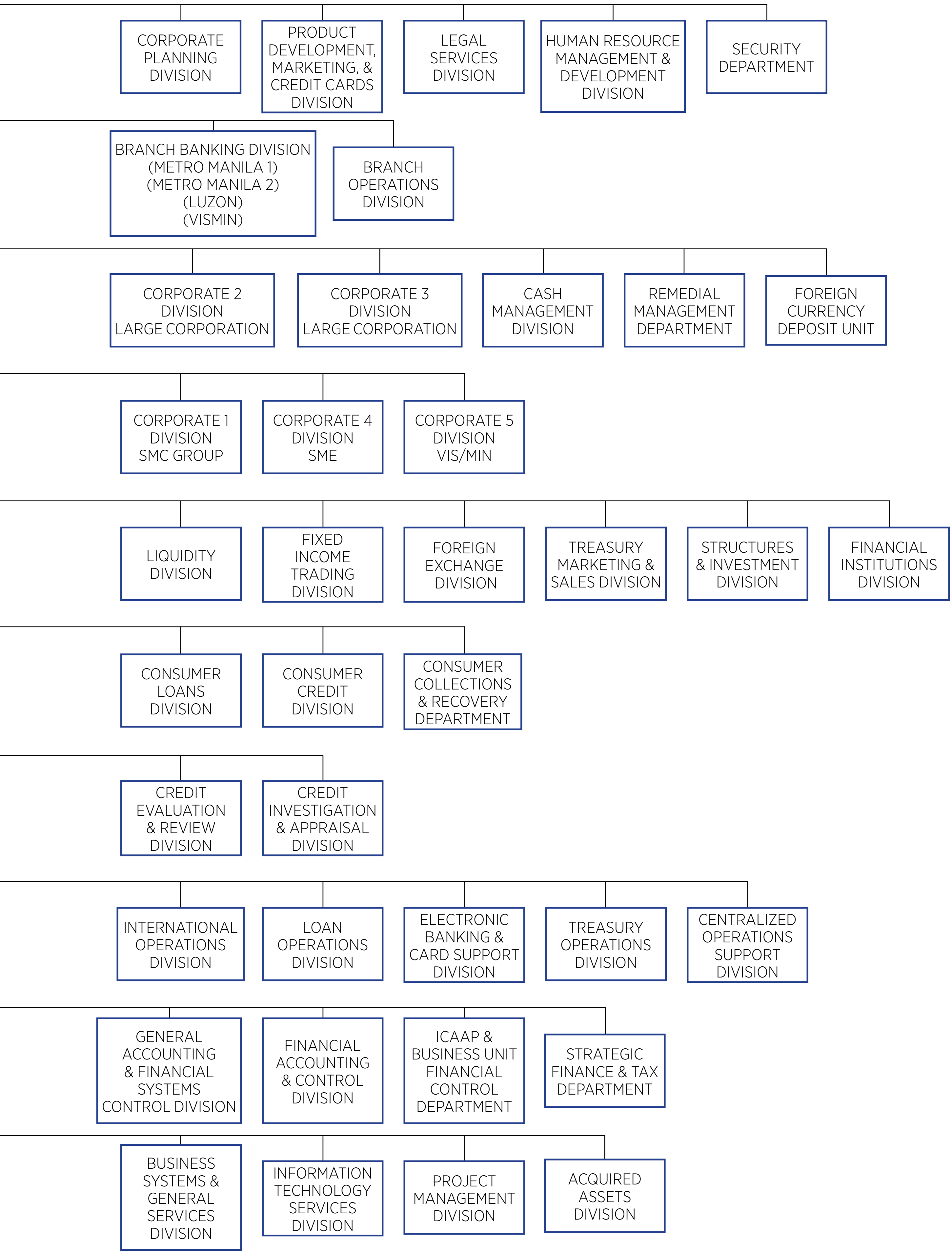
OWNERSHIP STRUCTURE



As of December 31, 2017

TABLE of Organization




CORPORATE PLANNING DIVISION
PRODUCT DEVELOPMENT, MARKETING, & CREDIT CARDS DIVISION
LEGAL SERVICES DIVISION
HUMAN RESOURCE MANAGEMENT & DEVELOPMENT DIVISION
SECURITY DEPARTMENT
BRANCH BANKING DIVISION (METRO MANILA 1) (METRO MANILA 2) (LUZON) (VISMIN)
BRANCH OPERATIONS DIVISION
CORPORATE 2 DIVISION LARGE CORPORATION
CORPORATE 3 DIVISION LARGE CORPORATION
CASH MANAGEMENT DIVISION
REMEDIAL MANAGEMENT DEPARTMENT
FOREIGN CURRENCY DEPOSIT UNIT
CORPORATE 1 DIVISION SMC GROUP
CORPORATE 4 DIVISION SME
CORPORATE 5 DIVISION VIS/MIN
LIQUIDITY DIVISION
FIXED INCOME TRADING DIVISION
FOREIGN EXCHANGE DIVISION
TREASURY MARKETING & SALES DIVISION
STRUCTURES & INVESTMENT DIVISION
FINANCIAL INSTITUTIONS DIVISION
CONSUMER LOANS DIVISION
CONSUMER CREDIT DIVISION
CONSUMER COLLECTIONS & RECOVERY DEPARTMENT
CREDIT EVALUATION & REVIEW DIVISION
CREDIT INVESTIGATION & APPRAISAL DIVISION
INTERNATIONAL OPERATIONS DIVISION
LOAN OPERATIONS DIVISION
ELECTRONIC BANKING & CARD SUPPORT DIVISION
TREASURY OPERATIONS DIVISION
CENTRALIZED OPERATIONS SUPPORT DIVISION
GENERAL ACCOUNTING & FINANCIAL SYSTEMS CONTROL DIVISION
FINANCIAL ACCOUNTING & CONTROL DIVISION
ICAAP & BUSINESS UNIT FINANCIAL CONTROL DEPARTMENT
STRATEGIC FINANCE & TAX DEPARTMENT
BUSINESS SYSTEMS & GENERAL SERVICES DIVISION
INFORMATION TECHNOLOGY SERVICES DIVISION
PROJECT MANAGEMENT DIVISION
ACQUIRED ASSETS DIVISION

BOARD of Directors

JOSE T. PARDO
Chairman (Independent Director)

ROBERTO C. BENARES
Member, President & CEO

FRANCIS C. CHUA
Member & Vice Chairman

AMOR C. ILISCUPIDEZ
Member

MARITO L. PLATON
Member

CAROLINA G. DIANGCO
Member

MELINDA GONZALES-MANTO
Member (Independent Director)

ANIANO A. DESIERTO
Member (Independent Director)

BENEDICTA DU-BALADAD
Member

FE B. BARIN
Member

ALEXANDER R. MAGNO
Member

JOSE C. NOGRALES
Member (Independent Director)

REBECCA MARIA A. YNARES
Member (Independent Director)

RONNIE U. COLLADO
Member

ROLANDO JOSE L. MACASAET
Member

RAMON S. ANG
Senior Adviser

AURORA T. CALDERON
Adviser

FERDINAND K. CONSTANTINO
Adviser

MARGARITO B. TEVES
Adviser

CECILE L. ANG
Adviser

EVITA C. CABALLA
Corporate Secretary

SENIOR Executive Team

ROBERTO C. BENARES
President & Chief Executive Officer

EVP FELIPE MARTIN F. TIMBOL
Treasury Management Group Head

SVP EDWIN T. AMAHAN
Branch Banking Group Head

SVP MANUEL A. CASTAÑEDA
Corporate Banking Group I Head

SVP RAFAEL C. BUENO, JR.
Corporate Banking Group II Head

SVP EDWARD DENNIS J. ZSHORNACK
Executive Support Group Head concurrent Finance and Controllership Group Head

SVP JAY S. VELASCO
Operations Group Head

SVP REGINALD C. NERY
Chief Audit Executive

FVP JOSE MARI M. ZERNA
Consumer Group Head

FVP JUAN ANGEL L. TINIO
Chief Information Officer

VP MARIA ANA P. DELA PAZ
Credit Group Head

VP AMALIA Q. BELARMINO
Trust Services Division Officer-in-Charge

VP CORAZON T. LLAGAS
Chief Compliance Officer

VP JEREMY H. REYES
Chief Risk Officer

FVP ALFREDO J. BAUTISTA
Corporate Planning Division Head concurrent Business Systems Division Head SET Secretariat

MANAGEMENT Committees

ANTI-MONEY LAUNDERING COMMITTEE

Chairperson	Corazon T. Llagas
Members	Wilson C. Vinoya
	Jeremy H. Reyes
	Jay S. Velasco
	George E. Consul
	Paulyn V. Bernabe
	Amalia Q. Belarmino
Advisers	Edward Dennis J. Zshornack
	Reginald C. Nery
Secretariat	Lilibeth L. Sansait

ASSET LIABILITY MANAGEMENT COMMITTEE

Chairperson	Roberto C. Benares
Members	Felipe Martin F. Timbol
	Edward Dennis J. Zshornack
	Edwin T. Amahan
	Rafael C. Bueno Jr.
	Manuel A. Castañeda
	Alfredo J. Bautista
	Jose Mari M. Zerna
Advisers	Jeremy H. Reyes
	Amalia Q. Belarmino
Secretariat	Monette G. De Leon

BUSINESS CONTINUITY MANAGEMENT COMMITTEE (CRISIS MANAGEMENT TEAM)

Chairperson	Roberto C. Benares
Vice Chairperson	Jay S. Velasco
Members	Edwin T. Amahan
	Jose Mari M. Zerna
	Rafael C. Bueno, Jr.
	Manuel A. Castañeda
	Maria Ana P. Dela Paz
	Edward Dennis J. Zshornack
	Felipe Martin F. Timbol
	Corazon T. Llagas
	Jeremy H. Reyes
	Reginald C. Nery
Secretariat	Roderick M. Martinez
	Emelito R. Papa

BIDS AND AWARDS COMMITTEE

OIC / Vice Chairperson	Sheilah R. Apostol
Members	Maria Ana P. Dela Paz
	Edwin T. Amahan
	Jay S. Velasco
Secretariat	Maritess C. Claveria

BUSINESS CONTINUITY MANAGEMENT COMMITTEE (BCP TEAM)

Chairperson	Edwin T. Amahan
Vice Chairperson	Edward Dennis J. Zshornack
Members	Dominador Anthony P. Banaag Jr.
	George E. Consul
	Jaqueline A. Domingo
	Ma. Eleanor Christina S. Castañeda
	Cenen R. Grajo
	Paul John T. Reyes
	Sheilah O. Apostol
	Evelyn G. Brucales
	Marie Kristin G. Mayo
	Joel O. Longalong
	Rommelwin A. Ardidon
	Joel L. Tinio
	Orlando M. Bibares
	Anna Marie A. Cruz
Secretariat	Roderick M. Martinez
	Emelito R. Papa

CLEAHR (CONTROLLERSHIP, COMPLIANCE, LEGAL, AUDIT, HUMAN RESOURCES AND RISK) COMMITTEE

Chairperson	Jeremy H. Reyes
Members	Louella P. Ira
	Corazon T. Llagas
	Marie Kristin G. Mayo
	Reginald C. Nery
Secretariat	Grace S. Cruz

COMMITTEE ON DISCIPLINARY ACTION

Chairman	Marie Kristin G. Mayo
Vice Chairperson	Alfredo J. Bautista
Members	Louella P. Ira
	Morena V. Abadilla
	Jeremy H. Reyes
	Bernadette C. Basobas
	Anna Marie A. Cruz
Secretariat	Jocelyn Isabel S. Legaspi
	Anna-Lyn R. Tarrayo

CREDIT AND COLLECTION COMMITTEE

Chairperson	Roberto C. Benares
Vice Chairperson	Maria Ana P. Dela Paz
Members	Felipe Martin F. Timbol
	Edward Dennis J. Zshornack
	Rafael C. Bueno, Jr.
	Manuel A. Castañeda
	Jay S. Velasco
	Edwin T. Amahan
	Jose Mari M. Zerna
Advisers	Corazon T. Llagas
	Jeremy H. Reyes
	Carmen Dee P. Sallan
Secretariat	Maria Monica L. Jimenez-Bigbig

INFORMATION TECHNOLOGY STEERING COMMITTEE

Chairperson	Roberto C. Benares
Vice Chairperson	Edward Dennis J. Zshornack
Members	Marito L. Platon
	Edwin T. Amahan
	Felipe Martin F. Timbol
	Jose Mari M. Zerna
	Numeriano V. Amparo
	Maria Ana P. Dela Paz
	Jay S. Velasco
	Joel L. Tinio
	Anna Marie A. Cruz
	Alfredo J. Bautista
	Jeremy H. Reyes
	Corazon T. Llagas
	Reginald C. Nery
Secretariat	David S. Chua
	Erma D. Pagkatipunan

ICAAP (INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS) COMMITTEE

Chairperson	Edward Dennis J. Zshornack
Vice Chairperson	Jeremy H. Reyes
Members	Edwin T. Amahan
	Corazon T. Llagas
	Jose Mari M. Zerna
	Rafael C. Bueno Jr.
	Alfredo J. Bautista
	Jay S. Velasco
	Felipe Martin F. Timbol
Adviser	Reginald C. Nery
Secretariat	Ma. Cerriza C. Monteclaro
	Glenda F. Angeles

OPERATIONS AND POLICIES COMMITTEE

Chairperson	Jay S. Velasco
Vice Chairperson	Alfredo J. Bautista
Members	George E. Consul
	Anna Marie A. Cruz
	Morena V. Abadilla
	Chona C. Lacson
	Jeremy H. Reyes
	Joel L. Tinio
	Sheilah R. Apostol
	Louella P. Ira
Advisers	Corazon T. Llagas
	Reginald C. Nery
Observer	Celestino C. Mendiola
Secretariat	Orlan M. Bibares
	Marielisa B. Cruz

SECURITY COMMITTEE

Chairperson	Jay S. Velasco
Vice Chairperson	Januario G. Caringal
Members	Edward Dennis J. Zshornack
	Edwin T. Amahan
	Juan Angel L. Tinio
Advisers	Reginald C. Nery
	Jeremy H. Reyes
	Corazon T. Llagas
	Wilson C. Vinoya
Secretariat	Cenen R. Grajo

RISK Management

RISK PHILOSOPHY AND GUIDING PRINCIPLES

The Bank's goal is to generate steady returns to shareholders' capital. With this objective in mind, the Bank's business principles, strategies, and operations are designed to achieve cash flows in excess of its obligations to its fund providers and stakeholders. To realize this, the Bank takes risks that are inherent in the conduct of its commercial banking franchise. Risk taking presents opportunities to earn more-than-expected returns, provided that the risk-taking process is intentional, investigated, and controlled. The Bank's risk-taking activities are guided by the following principles:

- The Bank is in the business of taking risks.
- The Bank takes risks after a deliberate process to identify the risks, to dimension them, and to decide whether to reduce, avoid, accept, or transfer the risk.
- The Bank adopts risk management practices suited to the scope and sophistication of its business and in line with global best practices.
- The Bank's risk management is the concern of everyone.
- The Bank recognizes the independence of risk managers and risk takers from each other.

RISK MANAGEMENT OVERSIGHT

The Bank's Board of Directors (BOD), Board Risk Oversight Committee (BROC), and Risk Management Division (RSK) are responsible for setting the overall risk management framework and risk appetite of the Bank. The BOD is the sole arbiter of the risks taken by the organization, with the sole discretion of determining what manner (strategic direction) and magnitude (risk appetite) of risk are suitable for the organization. The BOD develops both the strategic direction and the risk appetite with inputs provided by Management.

The Board established the BROC to oversee the promotion of a risk management culture within the Bank. The BROC is responsible for establishing and maintaining a sound risk management system. It assists the Board in its risk oversight function by:

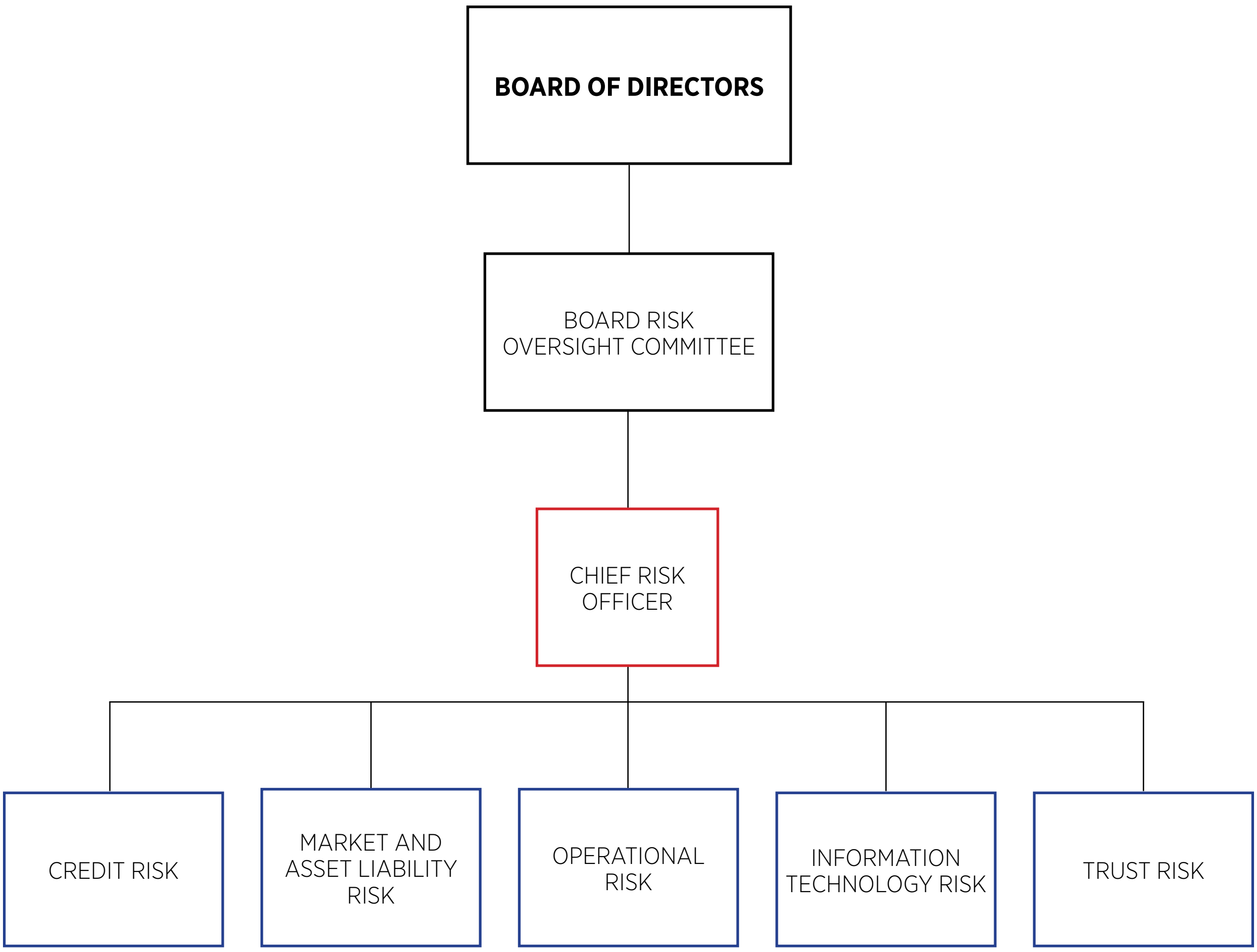
- Identifying and evaluating risk exposures
- Developing risk management strategies
- Implementing and periodically reviewing the risk management framework
- Promoting a culture that is conscious of the importance of risk management and capital adequacy

The Bank considers the understanding and the management of risk as a key part of its business strategy. The RSK is mandated to strengthen the Bank's risk management infrastructure to meet the requirements of its business.

The RSK implements the risk management directives of the Board and the BROC by:

- Formulating and recommending policies to manage market, liquidity, credit, operational, information technology, and trust risks arising from the business of the Bank
- Implementing the risk management framework approved by the Board of Directors
- Actively promoting a culture of risk awareness and risk management
- Coordinating with Finance and Controllership Group on the adequacy of the Bank's capital in absorbing the risks present in the Bank's business

The RSK reports to the Board through the BROC and is independent from the risk-taking business units of the Bank. Headed by the Chief Risk Officer, it comprises of the following departments:



CREDIT RISK MANAGEMENT

The Credit Risk Management Department (CRM) consists of three sections, each focusing on a major segment of the credit risk management process. The CRM is responsible for developing and recommending policies that will aid in the management of credit risk present in the Bank's asset portfolios. The CRM is also in charge of developing and updating the Bank's credit risk rating systems. It is the department's duty to monitor credit risk exposures against established limits and report portfolio performance, including significant movements, asset quality, and levels of concentration to the BROC on a timely basis. Credit risk models are developed, maintained, and updated by CRM to make sure that the Bank is always in compliance with the continuously evolving landscape of credit risk within the banking industry.

MARKET AND ASSET LIABILITY RISK MANAGEMENT

The Market and Asset Liability Risk Management Department (MRM) oversees the identification, assessment, monitoring, and control of risks arising from adverse movements in market risk factors and the related risk of the Bank not being able to meet its short-term financial obligations. It is responsible for recommending market and liquidity risk management policies which set uniform standards of risk assessment and capital adequacy. The MRM also provides Senior Management with risk assessments of Treasury-managed assets as well as the overall liquidity and repricing risk profile of the Bank's balance sheet. These are done through the use of Value-at-Risk and sensitivity metrics for the Treasury exposures and through liquidity and repricing gap analyses for the balance sheet profile. These metrics are evaluated against Board-approved limits and any exceptions are analyzed by the MRM and reported to the Board through the BROC.

OPERATIONAL RISK MANAGEMENT

The Operational Risk Management Department (ORMD) monitors the comprehensiveness and effectiveness of internal control systems employed by the Bank. The ORMD oversees the performance of these systems to minimize operational risks and detect vulnerabilities while the consequences are still manageable or avoidable.

The ORMD provides timely assessments of inherent general and functional risks to ensure the operational soundness of the organization as an ongoing concern. The ORMD also assists the operating units in improving the operational and system risk management capabilities through policy formulation.

INFORMATION TECHNOLOGY RISK MANAGEMENT

The Information Technology Risk Management (ITRM) focuses on the identification, monitoring, advisory, and reporting of risk issues arising from the technology transformation efforts of the Bank and the speed of innovation in products and services delivered on an information technology platform. It ensures the soundness of the organization's information technology systems by providing an effective assessment of inherent risks in its IT infrastructure. The ITRM also ensures the continuous relevance and enforcement of the Bank's IT Risk Management Framework and Information Security Policies and Procedures.

TRUST RISK MANAGEMENT

The Trust Risk Management (TRM) ensures the management of risks in the business operations of the Trust Services Division and reports to the Trust and Investment Committee (TIC) and the BROC. The TRM develops and enhances the policies and procedures in operational, credit, liquidity, and market risks in accordance with the risk management framework of the Bank to ensure that risk management practices continue to be effective and relevant to the ever-evolving trust business. It is responsible for overseeing the implementation of approved strategies and for ensuring that controls are in place relative to its business activities that will limit fiduciary risks and reinforce compliance with laws and regulations.

ANTI-MONEY LAUNDERING GOVERNANCE AND CULTURE

The Bank is committed to complying with the requirements of the AML Law, rules, and regulations as embodied in its Money Laundering and Terrorist Financing Prevention Program (MLPP). This is regularly updated or as need arises to reflect the constantly evolving regulations, the emerging money laundering/terrorist financing risks, and global best practices. While Compliance Division monitors its implementation, the Bank's oversight board and management level committees, the Corporate Governance Committee, and AML Committee, respectively, are tasked to oversee and implement the Bank's compliance with money laundering and terrorist financing prevention program and policies.

Identification of compliance risks enables the Bank to establish measures to mitigate such risks. Through the conduct of independent testing of branches and head office units, the Bank is able to identify the segment in the operational process where money laundering and terrorist financing risks are higher, and based on the testing results, implement improvements in the processes and segregate responsibilities among the units/personnel involved.

Testing results are monitored until corrected and reported to the oversight committees to enable them to have an accurate assessment of the effectiveness and efficiency of the Bank's money laundering and terrorist financing prevention program.

The Compliance Division, in partnership with HRMDD, is responsible in providing bank personnel with appropriate knowledge to achieve the Bank's goal of promoting effective implementation of the AML and CFT policies and procedures in the entire organization. The Bank provides trainings designed based on the level of money laundering/ terrorist financing exposure, with varying focus for new employees, front line staff and officers, internal audit, senior management, and directors. All employees are also required to undergo annual refresher training which highlight their responsibilities under the MLPP. The Bank's AML training aims to instill not only knowledge and awareness but also inculcate the attitude of compliance with AML Law, rules and regulations, and internal policies and procedures.

The Bank endeavors to create a robust compliance culture where the programs and systems in place are adequate and effective to ensure that any risk associated with money laundering and terrorist financing is mitigated and thus, ensures that the interest of the Bank, its clients, and other stakeholders is protected.

RISK MEASUREMENT AND REPORTING SYSTEMS

The Bank's capital adequacy is determined by measuring credit, market, and operational risk exposures using standardized or basic approaches as allowed by the Bangko Sentral ng Pilipinas (BSP). Risk exposures are measured both individually and in aggregate amounts. Risk measurements are done by respective risk taking personnel and groups but are independently validated, analyzed, and reported by the RSK. In cases where the risk measurement is performed by RSK, another independent party, in-house or external, conducts a validation exercise.

Market risks are measured by mark-to-market and Value-at-Risk analyses on the overall exposure, on a portfolio level, and on each individual financial instrument. These exposures are also subjected to stress testing using a variety of historical and hypothetical scenarios.

Quality of credit is measured via risk classifications of accounts using an Internal Credit Risk Rating System that incorporates the BSP risk classifications of borrowing accounts. The Bank's front office recommends the credit risk rating of borrowing accounts and classifications and allowances for losses, including changes thereon, when necessary. All risk information are processed, analyzed, and consolidated for proper reporting to the BOD through the BROC, TIC, AuditCom, Senior Executive Team, and various management committees of the Bank.

Actual and estimated risk exposures and losses at Treasury, Corporate and Consumer Banking, Operations, and Branches are consolidated for regular reporting. Reports include, among others, portfolio mix, liquidity and maturity matching, interest rate matching, trading gains and losses, sensitivity and backtesting results, top borrowers, non-performing assets and loans, industry exposures, large exposures, fines and penalties, employee fraud cases, status of legal cases, service level of major information technology systems, and ATMs.

The RSK streamlined the reporting of the enterprise-wide risk profile of the Bank through the periodic presentation and publication of the Risk Dashboard. This provides a readily available snapshot that highlights risk concerns encompassing the major business risk areas: Market, Asset and Liability, Credit, Corporate, Commercial and Consumer Lending, Operations, Information Technology, and Trust.

RISK EXPOSURES AND ASSESSMENTS

(as reported to the Bangko Sentral ng Pilipinas)

RISK-WEIGHTED ASSETS

Bank of Commerce's risk-weighted assets at the end of 2017 totalled PHP87.3 billion.

RISK-WEIGHTED ASSETS	2017	2016
Credit Risk	80,164	65,018
On Balance Sheet	76,989	62,860
Commitments	3,162	2,146
Counterparty Risk-Weighted Assets in the Trading Book	13	12
Contingencies	-	-
Deduction: GLLP (in excess to 1% of Credit Risk-Weighted Assets)	-	-
Market Risk	266	7,330
Interest Rate Risk	49	7,065
Foreign Exchange Risk	217	265
Operational Risk	6,913	6,761
TOTAL RISK-WEIGHTED ASSETS	87,343	79,109

**Amounts in millions*

CREDIT RISK

The Bank considers credit risk as the possibility of loss arising from the customer's inability or unwillingness to settle his/her obligations on time or in full as expected or previously contracted. The Bank uses the standardized approach in calculating its credit risk-weighted exposure. The straightforward nature of this approach enables the Bank to utilize a wider differentiation of risk weights and a wider recognition of risk mitigation techniques without taking in excessive complexity in the process.

Under this approach, the Bank assigns a specific risk weight to each asset and multiplies it by the credit risk exposure. The risk weights are based on the ratings provided by an External Credit Assessment Institution recognized by the BSP. For the end of 2017, the credit risk exposures of the Bank include PHP137.6 billion in balance sheet exposure.

All exposures arising from balance sheet items are net of provisions set aside to absorb credit losses:

ON-BALANCE SHEET ITEMS ASSESSED WEIGHT FOR CREDIT RISK	2017	2016
Cash & Other Cash Items	**1,385**	**1,636**
Due From Banks (including ILR and Due from BSP)	**31,078**	**39,353**
Securities	**29,791**	**4,117**
Sovereign	25,887	-
Bank	-	-
Corporate	3,904	4,117
Loan Portfolio	**62,653**	**48,423**
Loans to Corporates	53,152	40,971
Loans to Individuals - Qualified Residential REM	5,119	3,654
Loans to Individuals - Other Loans	4,166	3,640
Defaulted Exposures - Qualified Residential REM	92	47
Defaulted Exposures - Other Loans	124	111
Loan & Receivables Arising RPA	**4,131**	**13,809**
Sales Contracts Receivable	**1,160**	**653**
Real & Other Properties Acquired	**2,542**	**2,743**
Other Assets	**4,866**	**5,879**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED FOR CREDIT RISK	137,606	116,613

**Amounts in millions*

As of December 31, 2017 and 2016, other assets have been subjected to the following deductions:

	2017	2016
Total Assets	**138,500**	**136,843**
General Loan Loss Provisions	**628**	**465**
Deductions	**134,261**	**131,429**
Total Exposures Excluding other Assets	132,740	110,734
Financial Assets Held for Trading	101	19,191
Deferred Tax Assets	386	384
Other Intangible Assets	238	278
Other Equity Investments in Non-Financial Allied Undertakings and Non-Allied Undertakings	48	49
Significant Minority Instruments	-	-
Reciprocal Equity Investments	21	20
Accumulated Market gains /(losses) on AFS	-	-
Total Carrying Amount of Securitization Exposures	727	773
TOTAL OTHER ASSETS	4,867	5,879

**Amounts in millions*

The Bank considers credit risk mitigation as a means to lower its exposure to credit risk. At the end of 2017, PHP1.393 billion in credit risk exposures carried mitigation in the form of qualified collateral from third parties.

ON-BALANCE SHEET ITEMS COVERED BY CREDIT RISK MITIGATION	2017	2016
Exposures Covered by Credit Risk Mitigation	1,393	661
Items Covered by Guarantee (After Risk Weighing)	-	-
Items Covered by Collateral (After Risk Weighing)	-	-

**Amounts in millions*

The Bank uses a credit conversion factor as prescribed by banking regulations to account for the potential credit exposure arising from having committed to extend credit to a customer. The total loan equivalent exposure of the Bank to such commitments at the end of 2017 was PHP3.1 billion.

COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	2017	2016
Direct Client Substitutes	1,250	1,766
Transaction Related Contingencies	1,838	8
Trade Related Contingencies	75	372
Other Commitments	-	-
TOTAL COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	3,163	2,146

**Amounts in millions*

Net credit risk-weighted exposure at the end of 2017 was PHP80.16 billion. This credit exposure represents 91.78% of total risk-weighted assets.

The on-balance sheet credit risk-weighted assets without credit mitigation were PHP76.98 billion. On-balance sheet exposure makes up 96% of the total credit risk-weighted assets while the remainder is mostly in off-balance sheet assets, particularly on commitments to lend.

ON-BALANCE SHEET ITEMS ASSESSED WEIGHT FOR CREDIT RISK	2017	2016
Cash & Other Cash Items	**-**	**3**
Due From Banks (including ILR)	**2,656**	**4,026**
Securities	**3,745**	**823**
Sovereign	2,964	-
Bank	-	-
Corporate	781	823
Loan Portfolio	**60,690**	**47,284**
Loans to Corporates	52,108	40,628
Loans to Individuals - Qualified Residential REM	4,487	3,120
Loans to Individuals - Other Loans	3,816	3,322
Defaulted Exposures - Qualified Residential REM	92	47
Defaulted Exposures - Other Loans	187	167
Loan & Receivables Arising RPA	**-**	**-**
Sales Contracts Receivable	**1,220**	**729**
Real & Other Properties Acquired	**3,813**	**4,114**
Other Assets	**4,866**	**5,879**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED FOR CREDIT RISK	76,990	62,858

**Amounts in millions*

MARKET RISK

The Bank measures its exposure to market risk using the standardized approach under the Philippine Banking Regulation. Under this approach, the Bank applied risk weights defined by regulation to outstanding exposures to interest rates and to foreign exchange rates. Total of market risk-weighted assets at the end of 2017 was PHP266 million.

MARKET RISK-WEIGHTED ASSETS	2017	2016
Interest Rate Specific to the Issuer of the Debt Instruments	13	1,364
Interest Rate Risk Attributable to Market Conditions	36	5,701
Foreign Exchange Risk	217	265
TOTAL MARKET RISK-WEIGHTED ASSETS	266	7,330

**Amounts in millions*

OPERATIONAL RISK

The Bank measures its exposure to operational risk using the basic indicator approach under the Philippine Banking Regulation. The approach utilizes the historical total annual gross income as the measure of risk exposure. Total of operational risk-weighted assets at the end of 2017 was PHP6.913 billion.

OPERATIONAL RISK-WEIGHTED ASSETS	2017	2016
Average Income of the Previous Three Years	3,687	3,606
Capital Charge (15 pct of Average Income)	553	541
Calibration (Capital Charge times 1.25)	691	676
TOTAL OPERATIONAL RISK-WEIGHTED ASSETS (CALIBRATED CAPITAL CHARGE TIMES 10)	6,913	6,761

**Amounts in millions*

SECURITIZATION STRUCTURES

The Bank's MRT Tranche 3 Note holdings is booked as part of unquoted debt securities classified as loans and is carried at cost. The Note regularly redeems part of its principal every month and is expected to be fully paid on February 7, 2025. The Bank's current carrying value as of December 31, 2017 was PHP727 million.

SECURITIZATION EXPOSURE	2017	2016
MRT Tranche 3	727	773
TOTAL	727	773

**Amounts in millions*

OTHER RISK DISCLOSURES

COMPLIANCE RISK

The Bank addresses compliance risk through strengthening its compliance infrastructure. This infrastructure requires all persons within the organization to know the laws, rules, and regulations attendant to their functions. In addition, the units in charge of compliance (legal, regulatory, tax) regularly disseminate any new issuances for the understanding of concerned units.

The Compliance Division provides Business Operating Unit (BOU) guidance on the interpretation and application of BSP rules and regulations and other regulatory issuances with respect to the activities of the Bank. Breaches/deviations from these regulations are appropriately reported to the Management, Corporate Governance Committee, and the Board for immediate/appropriate resolution.

Monitoring and assessment of the Bank's adherence to laws, rules, and regulations are performed regularly, creating a comfort level that compliance continues to function effectively and efficiently. For this purpose, the Bank implements the three-pronged approach in Compliance Testing: the Compliance Self-Assessment performed by the units themselves; the Independent Compliance Testing, a validation exercise performed by the Compliance Division on selected units and branches; and supplemented by validation performed by Internal Audit on all units and branches included in the Annual Audit Plan.

Deputy Compliance Officers (DCO) are appointed within each of the operating and business units, following a Compliance Program that is anchored on self-assessment. Compliance Self-Assessment is done periodically using the Compliance Self-Assessment Checklist. The result of Compliance Self-Assessment is validated through the Independent Compliance Testing. Results of Compliance Self-Assessment and Independent Compliance Testing are reported to the Corporate Governance Committee and appropriate levels of Management. Follow-through is being done until findings/exceptions are fully corrected.

REPUTATIONAL RISK

Reputational risk proceeds from negative public opinion and has the potential to erode the perception of the Bank as a worthy counterparty or investment target. Negative perception on the part of customers, providers of funding, or regulators can adversely affect a bank's ability to maintain existing, or establish new, business relationships or to continue accessing sources of funding.

As the Bank presently neither uses capital market sensitive funding nor publicly listed stock, its funding cost and equity value remain shielded from reputational risk events and market discipline rendering fair estimate difficult to quantify.

Nevertheless, the impact on reputation of events that may occur in the regular course of business remains a top priority of Senior Management and the Board.

LEGAL RISK

Legal risk arises from failure in the implementation of necessary control measures as well as imperfect documentation of transactions. The primary functions of the Bank's Legal Services Division (LSD) comprise of rendering legal advice and document review to ensure that relevant laws are complied with, Bank interest is duly protected, and identified risks are imparted to responsible units of the Bank. The LSD handles cases filed for and against the Bank and provides Senior Management, the Corporate Governance Committee, and the BROC regular updates on any lawsuits involving the Bank.

PENSION RISK

The Bank enlists the assistance of third-party consultants to conduct actuarial evaluation on the condition of the retirement plan once a year in order to address any erosion in the explanatory power or significance of the actuarial models used to project benefit obligations.

Valuation of both the projected benefit obligation and the present value of the plan assets assumes rates of discount, asset return, and compensation growth. These parameters may properly reflect market conditions at the time of measurement but later be non-reflective as market conditions change.

The annual third-party actuarial evaluation of the condition of the retirement plan considers the relevance of the assumption used in valuation and recommends the necessary adjustments to properly reflect the value of plan assets and liabilities. The valuation assumptions last underwent review and adjustment during the actuarial report of 2017.

MODEL RISK

The Bank contracts external entities to validate internal models used to measure market, asset and liability risks, as well as rating models for the classification of borrowers' credit risk. Results of these validation exercises are reported to Management, the BROC, and the Audit Committee.

CAPITAL Management

The Board recognizes that capital adequacy is the foundation of institutional strength and therefore ensures that Bank of Commerce (the Bank) maintains an adequate level of capital to support business growth and maintain depositor and creditor confidence.

The Bank's capital management framework is designed to ensure that regulatory requirements are met at all times, and are cognizant of the Bank's risk profile and target ratios as approved by the Board. In addition, the Bank has its Internal Capital Adequacy Assessment Process (ICAAP), which enables the Bank to assess the capital impact of other risks apart from credit, market, and operational risks.

REGULATORY CAPITAL OVERSIGHT

The Board oversees the deployment of capital funds bank-wide, ensuring that Capital-to-Risk Weighted Assets Ratio (CAR) of the Bank meets or exceeds the minimum regulatory requirements. The following tables exhibit the Bank's capital condition as of December 31, 2017 and 2016:

AMOUNTS IN MILLIONS	2017	2016*
Gross Qualifying Capital	16,375	15,829
Less: Regulatory deductions	1,420	1,504
Total Qualifying Capital	**14,955**	**14,325**
Credit risk-weighted assets	80,164	65,018
Market risk-weighted assets	266	7,330
Operational risk-weighted assets	6,913	6,761
Total Risk-Weighted Assets	**87,343**	**79,110**
Capital Adequacy Ratio or "CAR" Regulatory minimum is 10%	**17%**	**18%**
Tier 1 Capital Ratio Regulatory minimum is 7.5%	**16%**	**17%**
Common Equity Tier 1 Ratio	**16%**	**17%**

*2016 CAR was restated based on the resubmitted BASEL III
CAR report due to the Bangko Sentral ng Pilipinas (BSP) Audit Comment on market capital charge of AFS

The above ratios represent a measure of capital supply relative to the total risk-weighted assets and are measured against regulatory minimum requirements. As of December 31, 2017 and 2016, the Bank has complied with the minimum regulatory required capital.

Tier 1 Capital comprised common stock, additional paid-in capital, and surplus. Common equity tier 1 represents ordinary share capital, share premium, and retained earnings, including cumulative translation adjustment.

Risk-weighted assets are determined based on standardized regulatory approach for credit risk (both on-and-off balance sheet exposures) and market risk, while operational risks are based on Basic Indicator Approach (BIA).

	DECEMBER 31, 2017		DECEMBER 31, 2016	
Amounts in millions	**Risk-Weighted Assets**	**Capital Requirements**	**Risk-Weighted Assets**	**Capital Requirements**
Credit Risk	80,164	8,016	65,018	6,502
Market Risk	266	27	7,330	733
Operational Risk	6,913	691	6,761	676
Total	**87,343**	**8,734**	**79,110**	**7,911**

The following tables exhibit the elements of the Bank's -Total Qualifying Capital- as of December 31, 2017 and 2016.

AMOUNTS IN MILLIONS	DECEMBER 31, 2017	DECEMBER 31, 2016
Paid-up Common Stock	11,224	11,224
Additional Paid-in Capital	5,594	8,749
Retained Earnings/(Deficit)	(259)	(3,863)
Other Comprehensive Income	(827)	(762)
Gross Common Equity Tier 1 (CET1) Capital	**15,732**	**15,347**
Appraisal Increment Reserve – Bank Premises	15	17
General Loan Loss Provision	628	465
Gross Tier 2 Capital	**643**	**482**
Less: Regulatory Deductible Adjustments To Qualifying Capital		
Deferred Tax Assets	386	384
Other Intangible Assets	238	278
Other Equity Investments In Non-Financial Allied Undertakings And Non-Allied Undertakings	48	49
Reciprocal Equity Investments	21	20
Securitization Tranches And Structured Products Which Are Rated Below Investment Grade Or Are Unrated	727	773
Total Regulatory Deductible Adjustments To Qualifying Capital	**1,420**	**1,504**
Adjusted CET1 Capital	**14,312**	**13,843**
Adjusted Tier 2 Capital, mainly adding back the General Loan Loss Provisions	**643**	**482**
Total Qualifying Capital	**14,955**	**14,325**

Components of the regulatory qualifying capital are determined based on the BSP's regulatory accounting policy (RAP), which differs from the Capital based on the Philippine Financial Reporting Standards (PFRS) in some respects.

Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements follows:

	DECEMBER 31, 2017			DECEMBER 31, 2016		
	Qualifying Capital	Reconciling Items	Audited Financial Statements	Qualifying Capital	Reconciling Items	Audited Financial Statements
			(in millions)			
Tier 1 capital/Total equity						
Capital stock	11,224	-	11,224	11,224	-	11,224
Paid-in surplus	5,594	-	5,594	8,749	-	8,749
Surplus reserves	159	-	159	153	-	153
Retained earnings (Deficit)	(418)	1,921	1,503	(4,017)	4,635	618
Net unrealized losses on AFS securities	(648)	14	(634)	(596)	29	(567)
Remeasurement losses on retirement liability	(177)	-	(177)	(164)	-	(164)
Share in other comprehensive loss of associate	(1)	*	(1)	(1)	*	(1)
Cumulative translation adjustment	(1)	(8)	(9)	*	2	1
Deductions	(1,420)	1,420	-	(1,504)	1,504	-
	14,312	3,347	17,659	13,843	3,015	16,858
Tier 2 capital						
Revaluation increment on PPE and investment properties	15	127	142	17	430	447
General loan loss provision	628	(628)	-	465	(465)	-
	643	(501)	142	482	(35)	447
Total qualifying capital/Total equity	14,995	2,846	17,801	14,325	2,980	17,305

*Amount is below PHP1 million

Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP for prudential reporting and vice versa.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) OVERSIGHT

The Board oversees the ICAAP of the Bank and recognizes the applicability of regulatory changes, such as Basel III, in its ICAAP. The ICAAP enables the Bank to properly understand the risks in its strategic plans and also to assess how much capital is required to withstand these risks. Integrating ICAAP into the organization creates a culture of collective responsibility and accountability to preserve and maximize the value of invested capital.

The Bank's management constantly monitors compliance with the minimum regulatory capital requirements, as well as with internal capital requirements, as determined under its ICAAP.

Management regularly reports to the Board the state of capital adequacy compliance to enable the Board to make proper decisions regarding risk and capital.

THE BOARD OF DIRECTORS AND THE BOARD RISK OVERSIGHT COMMITTEE

The Board of Directors, as the body responsible for the governance of the Bank, is the sole arbiter of the risks taken by the Bank and alone exercises discretion over the manner (strategic direction) and magnitude (risk appetite) in which the Bank's capital is placed at risk in pursuit of the Bank's strategic growth and profit targets.

The Board of Directors establishes an infrastructure that provides regular reports to ensure that the Board has sufficient information to make proper decisions on risk and capital.

The Board of Directors established within itself a Board Risk Oversight Committee (BROC) that oversees the risk management infrastructure of the Bank, including the review of the ability of the Bank to absorb the risks where it has exposure.

ICAAP STEERING COMMITTEE

The ICAAP Steering Committee is a management committee that is responsible for overseeing the development of the assessment process and for monitoring the implementation and integration of the ICAAP. The Committee:

- Evaluates the Bank's compliance with mandated minimum capital requirements;
- Oversees the ICAAP to ensure it effectively approximates the Bank's ability to absorb losses;
- Formulates and recommends guidelines, policies, and procedures which enable the Bank to maintain a level of qualified capital appropriate to its risk profile; and
- Evaluates the Regulator's findings and recommendations regarding the ICAAP of the Bank and oversees its plans to address the Regulator's findings on ICAAP

The ICAAP Report is issued by the ICAAP Committee to the Board annually, conveying the results of the evaluation of the Bank's ICAAP. The 2017 ICAAP Report highlighted the sufficiency of the Bank's compliance with regulatory and internal capital requirements considering the strategic plans from 2018 through 2020, and the sufficiency of Management's Capital Contingency Plan as well as Capital Build-up Program.

The Bank's intended primary source of emergency capital would be through issuance of additional Tier 1 capital (common stock), as discussed and approved at the ICAAP Steering Committee and Board levels.

The Bank's long-term capital management plan that was approved by the Board back in 2014 consists of the following key components, which have materialized in a timely manner as follows:

1. Starting with its 2014 Audited Financial Statements, the Bank was able to finally resolve the long outstanding qualifications in the external Auditors' Opinion pertaining to prior years' unrecognized losses that should have otherwise reduced Total Capital. As of December 31, 2014, the Bank's Capital (PFRS basis) had been updated with the full write down of the required allowance for certain non-performing assets that had been acquired in 2002 from Trader's Royal Bank, as well as the full charge-off of deferred losses that had been actually incurred on the 2005 and 2007 sales of non-performing assets to special purpose vehicles.
2. Pursuant to Securities and Exchange Commission's (SEC) Certificate of Approval of Equity Restructuring, the Bank was allowed by SEC to effect in the Audited Financial Statements as of December 31, 2016 the wipeout of its Deficit as of December 31, 2015 in the amount of PHP3,154,450,041.00 against the Additional Paid-in Capital (APIC) of PHP8,748,529,678.00.
3. As part of ongoing capital management, the Bank continues to evaluate the forward-looking capital requirements to support future business expansion and risk-taking strategies. The Board has directed Management to escalate for deliberation and approval by the Board any proposed capital-raising exercise and accordingly, to pursue the necessary regulatory approvals.

CONSUMER Protection

With the Financial Consumer Protection framework set in motion during the preceding year, Bank of Commerce went forward in intensifying its security measures in 2017 to protect its customers in the following areas:

Disclosure and Transparency. The Bank exerted more diligence in ensuring that various marketing collaterals displayed in its branches were updated and bore the mandatory statement of the Bangko Sentral ng Pilipinas. An updated version of the Banking Needs Pamphlet (also known as the “Bank Anywhere” flyer) was distributed to the branches in July which carried the Bank’s “We Think Customers” tagline.

The Bank’s brochures were also given a fresh look in August. Aside from putting the prescribed financial consumer protection details, the Bank updated certain product information, such as the ADB requirements of certain CASA and TD products, improvements on TD product terms, and new details related to the Mastercard EMV Debit Card. The Bank also took the opportunity to enhance its product descriptions to have a more consumer-friendly tone.

Effective Recourse. To provide customers more ways to easily access the Bank for their banking concerns, Customer Care domestic toll-free numbers were announced to the branches in December. All reminders and new standees with Customer Care hotline numbers and email address designated for customer feedback were released and installed in the branches starting in the third quarter of 2017.

The Operating Policies and Procedures Manual (OPPM) on Customer Complaint Management/Consumer Protection was routed in July. Sign-off of concerned units was secured between August to December.

Financial Education and Awareness. The Bank completed the Community Managed Savings and Credit Association (CoMSCA) project with World Vision at Laurel, Batangas. The project focused on teaching the basics of saving to kids and adults, and practicing wise spending.

The Bank also ran the "Bank Anywhere" program which allowed clients to transact with the Bank beyond their branch of account and via online through its internet banking channels. On top of these efforts, sales blitzes to promote the Junior Smart Savers Savings Account in schools located in Manila, Quezon City, Malabon, Bataan, and La Union served as an avenue to inculcate financial awareness among the youth.

INTERNAL AUDIT Division Report

The Internal Audit Division (IAD) is an independent unit of the Bank that conducts objective assurance and consulting activities designed to add value and help improve the operations of the Bank. The IAD evaluates the effectiveness of the Bank's risk management and governance processes and provides reasonable assurance that the Bank's key organizational and procedural controls are effective, appropriate, and complied with. The IAD periodically audits all branches, area offices, branch operations control centers, head office units, as well as systems, applications, and mission-critical projects of the Bank, using a risk-based approach.

Over the years, the IAD has also significantly enhanced the use of computer-assisted audit techniques (CAATs). Tools such as ACL (a data extraction and analysis software), and the advanced use of MS Excel allow the IAD to apply a more efficient, effective, and comprehensive approach in reviewing and analyzing data for selected audits and validations as well as in generating randomly and sending confirmation letters regarding account balance of selected clients. Based on the results of audit and other assurance activities performed in 2017, the Chief Audit Executive declared that the Bank's systems of governance, internal controls, and risk management are reasonably adequate to address strategic, financial, regulatory (including AMLA), compliance, operational, and fraud-related risks.

As such, the systems of internal control established and maintained by the Bank promote reliability of financial and management reporting, operational efficiency, system reliability, data integrity, asset protection and prompt detection and/or prevention of errors and/or irregularities in processing and reporting the Bank's transactions and accounts. It is worthy to note that the Bank has been consistently improving its internal controls, governance, and risk management processes to address emerging risks faced by the institution, to attune itself with new laws and regulations, and to respond to technology changes, competition, and industry movements.

A structured program for continuing professional development is in place to help the Bank's auditors further enhance their knowledge, skills, and other competencies with regard to auditing. The program is also aimed at making the auditors informed about current developments in governance, risk, information technology (IT), regulations, and control processes relevant to the Bank. Furthermore, auditors are strongly encouraged to demonstrate their proficiency by obtaining appropriate professional certification related to internal auditing, internal control, risk management, IT security, and governance.

The IAD maintains a quality assurance and improvement program that covers all aspects of the internal audit activity. The program includes, but is not limited to, an evaluation of the internal audit activity's conformance with The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (the "Standards" or ISPPIA) and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

An internal assessment is conducted annually while external assessment is conducted by a qualified external quality assessment provider at least once every five years. The results of the internal and external assessments are both presented to the Audit Committee. The Bank is undertaking these assessments to demonstrate the IAD's continuing compliance with the Standards.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY for Financial Statements

The management of Bank of Commerce (the "Bank") is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the 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 Bank's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank'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.

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has audited the financial statements of the Bank 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.

JOSE T. PARDO
CHAIRMAN OF THE BOARD

ROBERTO C. BENARES
PRESIDENT AND CHIEF EXECUTIVE OFFICER

EDWARD DENNIS J. ZSHORNACK
SENIOR VICE PRESIDENT AND CONTROLLER

Subscribed and sworn to before me this 3rd day of April 2018, affiants exhibiting their Senior Citizen Identification No. and Passport No., as follows:

Names	Identification Nos.	Date of Issue	Place of Issue
Jose T. Pardo	Senior Citizen ID No. 1725634	July 31, 2002	Muntinlupa City
Roberto C. Benares	Passport No. EC2113502	September 16, 2014	DFA NCR East
Edward Dennis J. Zshornack	Passport No. P2464204A	March 25, 2017	DFA NCR East

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Book No. IV
Series of 2018

JOYSHIRA B. MAGMANLAC
NOTARY PUBLIC FOR MANDALUYONG CITY
APPOINTMENT NO. 0483-17
UNTIL DECEMBER 31, 2018
SMBC # 7 ST. FRANCIS ST., MANDALUYONG CITY
PTR NO. [illegible]/01-03-2018/MANDALUYONG CITY
IBP LIFETIME NO. [illegible]
ROLL OF ATTORNEYS NO. 58611

AUDITED
Financial Statements

KPMG

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and the Stockholders
Bank of Commerce
San Miguel Properties Centre
No. 7, St. Francis Street
Mandaluyong City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Commerce (the "Bank"), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Philippine Standards on Auditing 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 financial statements.

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

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

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

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

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

KPMG

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 37 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

ALINE A. NOVILLA
Partner
CPA License No. 0109938
BSP - Selected External Auditor, Category A, valid for 3-year audit
period (2017 to 2019)
SEC Accreditation No. 1488-A, Group A, valid until May 20, 2018
Tax Identification No. 228-271-641
BIR Accreditation No. 08-001987-32-2017
Issued September 5, 2017; valid until September 4, 2020
PTR No. 6615147MD
Issued January 3, 2018 at Makati City

March 26, 2018
Makati City, Metro Manila

STATEMENTS of Financial Position

	Note	December 31 2017	2016
ASSETS			
Cash and Other Cash Items		**P1,384,981,849**	P1,635,564,614
Due from Bangko Sentral ng Pilipinas	*18*	**25,704,211,852**	31,232,966,983
Due from Other Banks		**3,185,995,822**	3,839,466,066
Interbank Loans Receivable and Securities Purchased Under Resale Agreement	*7*	**6,316,149,870**	18,076,096,271
Financial Assets at Fair Value through Profit or Loss	*8*	**101,046,229**	93,511,228
Available-for-Sale Securities - net	*9, 17, 33, 34*	**17,106,651,172**	23,325,779,989
Held-to-Maturity Investments	*10, 34*	**12,529,887,205**	-
Loans and Receivables - net	*11, 17, 34*	**65,411,128,471**	50,790,241,751
Non-current Assets Held for Sale	*12*	**48,121,557**	53,667,264
Investment in Associate - net	*13, 17, 34*	**46,149,665**	48,265,331
Property and Equipment - net	*14, 17*		
At cost		**478,285,349**	429,706,361
At appraised values		**811,715,955**	840,453,110
Investment Properties	*15*	**5,801,661,936**	6,213,588,230
Deferred Tax Assets - net	*31*	**108,225,028**	168,489,161
Other Assets - net	*16, 17*	**1,421,631,448**	1,937,985,894
		P140,455,843,408	P138,685,782,253
LIABILITIES AND EQUITY			
Deposit Liabilities	*18, 34*		
Demand		**P26,863,176,630**	P24,422,977,807
Savings		**74,895,962,109**	68,709,645,591
Time		**17,008,912,478**	24,363,391,426
		118,768,051,217	117,496,014,824
Bills Payable	*19*	**267,208**	484,385
Manager's Checks		**560,296,206**	716,059,911
Accrued Interest, Taxes and Other Expenses	*20, 34*	**906,866,282**	941,943,850
Other Liabilities	*21, 34*	**2,418,959,935**	2,225,833,783
Total Liabilities		**122,654,440,848**	**121,380,336,753**

Forward

		December 31	
	Note	**2017**	2016
Equity			
Capital stock	*23*	**P11,224,111,200**	P11,224,111,200
Paid-in surplus	*23*	**5,594,079,646**	5,594,079,646
Surplus reserves	*24*	**159,442,049**	152,581,050
Retained earnings	*23*	**1,503,397,896**	618,096,016
Revaluation increment on property and equipment and investment properties - net of tax	*14, 15*	**141,587,083**	447,151,737
Net unrealized losses on available-for-sale securities	*9*	**(633,965,463)**	(566,622,743)
Remeasurement losses on retirement liability	*28*	**(176,743,526)**	(164,228,770)
Share in other comprehensive loss of associate	*13*	**(1,339,715)**	(1,023,607)
Cumulative translation adjustment		**(9,166,610)**	1,300,971
Total Equity		**17,801,402,560**	17,305,445,500
		P140,455,843,408	P138,685,782,253

See Notes to the Financial Statements.

STATEMENTS of Income

	Note	2017	2016
		Years Ended December 31	
INTEREST INCOME			
Loans and receivables	*11, 16, 34*	**P2,846,991,127**	P2,875,606,204
Debt securities	*25, 34*	**950,859,818**	882,450,722
Due from Bangko Sentral ng Pilipinas and other banks	*18*	**241,070,180**	241,093,330
Interbank loans receivable and securities purchased under resale agreement	*7*	**230,657,897**	190,577,104
		4,269,579,022	4,189,727,360
INTEREST EXPENSE			
Deposit liabilities	*18, 34*	**867,108,835**	862,628,893
Bills payable and others	*19*	**15,011,452**	646,798
		882,120,287	863,275,691
NET INTEREST INCOME		**3,387,458,735**	3,326,451,669
OTHER INCOME			
Service charges, fees and commissions	*26, 34*	**476,725,037**	324,203,760
Fair value gain from investment properties	*15*	**409,097,160**	47,586,165
Gains on foreclosure and sale of property and equipment and foreclosed assets - net	*12, 14, 15, 16, 34*	**317,645,099**	257,113,853
Foreign exchange gains - net		**84,655,566**	51,341,679
Trading and investment securities gains - net	*27*	**56,259,849**	342,427,184
Reversal of credit and impairment losses	*17*	**14,974,524**	108,038,780
Miscellaneous	*9, 15, 29, 34*	**86,292,088**	83,777,604
		1,445,649,323	1,214,489,025
OTHER EXPENSES			
Compensation and fringe benefits	*28, 34*	**1,389,262,388**	1,381,603,312
Rent and utilities	*29*	**629,326,820**	671,243,535
Taxes and licenses	*15, 31*	**492,223,314**	480,727,818
Insurance		**220,569,326**	209,021,659
Depreciation and amortization	*14, 16*	**178,840,936**	194,611,245
Entertainment, amusement and recreation	*31*	**145,056,262**	155,850,059
Management and professional fees	*34*	**111,900,913**	70,412,561
Amortization of software costs	*16*	**107,666,376**	111,164,255
Miscellaneous	*30*	**552,854,592**	347,218,102
		3,827,700,927	3,621,852,546
INCOME BEFORE SHARE IN NET LOSS OF ASSOCIATE AND INCOME TAX		**1,005,407,131**	919,088,148
SHARE IN NET LOSS OF ASSOCIATE	*13, 34*	**1,799,558**	1,410,096
INCOME BEFORE INCOME TAX		**1,003,607,573**	917,678,052
INCOME TAX EXPENSE	*31*	**377,690,413**	307,280,056
NET INCOME		**P625,917,160**	P610,397,996

See Notes to the Financial Statements.

STATEMENTS of Comprehensive Income

		Years Ended December 31	
	Note	**2017**	2016
NET INCOME		**P625,917,160**	P610,397,996
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may not be reclassified to profit or loss			
Net change in revaluation increment on property and equipment and investment properties - net of tax	*14, 15*	**(39,318,935)**	56,301,911
Net change in remeasurement losses on retirement liability	*28*	**(12,514,756)**	67,462,036
		(51,833,691)	123,763,947
Items that may be reclassified to profit or loss			
Net change in net unrealized loss on available-for-sale securities	*9*	**(67,342,720)**	(180,066,546)
Net movement in cumulative translation adjustment		**(10,467,581)**	20,900,042
Share in other comprehensive (loss) income of associate	*13*	**(316,108)**	504,187
		(78,126,409)	(158,662,317)
		(129,960,100)	(34,898,370)
TOTAL COMPREHENSIVE INCOME		**P495,957,060**	P575,499,626

See Notes to the Financial Statements.

STATEMENTS of Changes in Equity

	Note	Capital Stock (Note 23)	Paid-in Surplus (Note 23)	Surplus Reserves (Note 24)	Retained Earnings (Note 23)	Revaluation Increment on Property and Equipment and Investment Properties - net of tax (Notes 14 and 15)	Net Unrealized Losses on Available-for-Sale Securities (Note 9)	Remeasurement Losses on Retirement Liability (Note 28)	Share in Other Comprehensive Loss of Associate (Note 13)	Cumulative Translation Adjustment	Total Equity
Balance as at December 31, 2016		P11,224,111,200	P5,594,079,646	P152,581,050	P618,096,016	P447,151,737	(P566,622,743)	(P164,228,770)	(P1,023,607)	P1,300,971	P17,305,445,500
Net income for the year		-	-	-	625,917,160	-	-	-	-	-	625,917,160
Other comprehensive income (loss) for the year:											
Items that may not be reclassified to profit or loss:											
Net change in revaluation increment on property and equipment and investment properties - net of tax		-	-	-	-	(39,318,935)	-	-	-	-	(39,318,935)
Net change in remeasurement losses on retirement liability		-	-	-	-	-	-	(12,514,756)	-	-	(12,514,756)
Items that may be reclassified to profit or loss:											
Net changes in fair value of available-for-sale (AFS) securities taken to profit or loss		-	-	-	-	-	(37,554,250)	-	-	-	(37,554,250)
Net changes in fair value of AFS securities		-	-	-	-	-	(29,788,470)	-	-	-	(29,788,470)
Net movement in cumulative translation adjustment		-	-	-	-	-	-	-	-	(10,467,581)	(10,467,581)
Share in other comprehensive loss of associate		-	-	-	-	-	-	-	(316,108)	-	(316,108)
Total comprehensive income for the year		-	-	-	625,917,160	(39,318,935)	(67,342,720)	(12,514,756)	(316,108)	(10,467,581)	495,957,060
Transactions within equity:											
Transfer of revaluation increment on property and equipment and investment properties realized through disposal	*14, 15*	-	-	-	260,694,715	(260,694,715)	-	-	-	-	-
Appropriation of surplus for trust business	*24*	-	-	6,860,999	(6,860,999)	-	-	-	-	-	-
Transfer of revaluation increment on property and equipment realized through depreciation		-	-	-	5,551,004	(5,551,004)	-	-	-	-	-
		-	-	6,860,999	259,384,720	(266,245,719)	-	-	-	-	-
Balance as at December 31, 2017		**P11,224,111,200**	**P5,594,079,646**	**P159,442,049**	**P1,503,397,896**	**P141,587,083**	**(P633,965,463)**	**(P176,743,526)**	**(P1,339,715)**	**(P9,166,610)**	**P17,801,402,560**

Forward

	Note	Capital Stock (Note 23)	Paid-in Surplus (Note 23)	Surplus Reserves (Note 24)	Retained Earnings (Deficit) (Note 23)	Revaluation Increment on Property and Equipment and Investment Properties - net of tax (Notes 14 and 15)	Net Unrealized Losses on Available-for-Sale Securities (Note 9)	Remeasurement Losses on Retirement Liability (Note 28)	Share in Other Comprehensive Loss of Associate (Note 13)	Cumulative Translation Adjustment	Total Equity
Balance as at December 31, 2015		P11,224,111,200	P8,748,529,687	P146,692,129	(P3,154,450,041)	P404,436,767	(P386,556,197)	(P231,690,806)	(P1,527,794)	(P19,599,071)	P16,729,945,874
Net income for the year		-	-	-	610,397,996	-	-	-	-	-	610,397,996
Other comprehensive income (loss) for the year:											
Items that may not be reclassified to profit or loss:											
Net change in revaluation increment on property and equipment and investment properties - net of tax		-	-	-	-	56,301,911	-	-	-	-	56,301,911
Net change in remeasurement losses on retirement liability		-	-	-	-	-	-	67,462,036	-	-	67,462,036
Items that may be reclassified to profit or loss:											
Net changes in fair value of available-for-sale (AFS) securities taken to profit or loss		-	-	-	-	-	(352,685,478)	-	-	-	(352,685,478)
Net changes in fair value of AFS securities		-	-	-	-	-	172,618,932	-	-	-	172,618,932
Net movement in cumulative translation adjustment		-	-	-	-	-	-	-	-	20,900,042	20,900,042
Share in other comprehensive income of associate		-	-	-	-	-	-	-	504,187	-	504,187
Total comprehensive income for the year		-	-	-	610,397,996	56,301,911	(180,066,546)	67,462,036	504,187	20,900,042	575,499,626
Transactions within equity:											
Application of paid-in surplus against deficit	*23*	-	(3,154,450,041)	-	3,154,450,041	-	-	-	-	-	-
Appropriation of surplus for trust business	*24*	-	-	5,888,921	(5,888,921)	-	-	-	-	-	-
Transfer of revaluation increment on property and equipment realized through depreciation		-	-	-	13,586,941	(13,586,941)	-	-	-	-	-
		-	(3,154,450,041)	5,888,921	3,162,148,061	(13,586,941)	-	-	-	-	-
Balance as at December 31, 2016		P11,224,111,200	P5,594,079,646	P152,581,050	P618,096,016	P447,151,737	(P566,622,743)	(P164,228,770)	(P1,023,607)	P1,300,971	P17,305,445,500

See Notes to the Financial Statements.

STATEMENTS of Cash Flows

	Note	Years Ended December 31 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P1,003,607,573**	P917,678,052
Adjustments for:			
Fair value gain from investment properties	*15*	**(409,097,160)**	(47,586,165)
Gain on foreclosure and sale of property and equipment and foreclosed assets - net	*12, 14, 15, 16, 34*	**(317,645,099)**	(257,113,853)
Depreciation and amortization	*14, 16*	**178,840,936**	194,611,245
Amortization of software costs	*16*	**107,666,376**	111,164,255
Gain on sale of available-for-sale securities	*9, 27*	**(37,554,250)**	(352,685,478)
Reversal of credit and impairment losses	*17*	**(14,974,524)**	(108,038,780)
Share in net loss of associate	*13*	**1,799,558**	1,410,096
Unrealized loss (gain) on financial assets and liabilities at fair value through profit or loss	*27*	**811,909**	(86,897,122)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at fair value through profit or loss		**(8,346,910)**	1,694,857,667
Loans and receivables		**(14,168,823,884)**	(7,789,297,227)
Other assets		**(67,454,743)**	(178,348,163)
Increase (decrease) in:			
Deposit liabilities		**1,272,036,393**	323,872,602
Manager's checks		**(155,763,705)**	215,948,299
Accrued interest, taxes and other expenses		**(30,801,533)**	25,191,733
Other liabilities		**178,665,163**	130,257,230
Net cash absorbed by operations		**(12,467,033,900)**	(5,204,975,609)
Income taxes paid		**(299,471,805)**	(270,459,994)
Net cash used in operating activities		**(12,766,505,705)**	(5,475,435,603)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale or redemption of:			
Available-for-sale securities		**11,384,200,916**	14,266,362,002
Investment properties		**464,945,531**	185,239,074
Property and equipment		**59,363,216**	59,005,907
Non-current assets held for sale		**6,860,800**	5,736,000
Additions to:			
Available-for-sale securities		**(14,118,596,338)**	(14,743,010,137)
Held-to-maturity investments		**(2,896,564,194)**	-
Property and equipment	*14*	**(246,585,112)**	(194,443,501)
Deferred software costs	*16*	**(67,795,996)**	(63,133,883)
Investment properties		**(1,392,901)**	(3,953,862)
Net cash used in investing activities		**(5,415,564,078)**	(488,198,400)
CASH FLOWS FROM A FINANCING ACTIVITY			
Settlement of bills payable	*19*	**(217,177)**	(204,465)
EFFECT OF EXCHANGE RATE DIFFERENCES		**(10,467,581)**	20,900,042
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(18,192,754,541)**	(5,942,938,426)

Forward

	Years Ended December 31	
	2017	2016
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**P1,635,564,614**	P2,253,631,232
Due from Bangko Sentral ng Pilipinas	**31,232,966,983**	49,802,020,338
Due from other banks	**3,839,466,066**	3,287,775,229
Interbank loans receivable and securities purchased under resale agreement	**18,076,096,271**	5,383,605,561
	54,784,093,934	60,727,032,360
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**1,384,981,849**	1,635,564,614
Due from Bangko Sentral ng Pilipinas	**25,704,211,852**	31,232,966,983
Due from other banks	**3,185,995,822**	3,839,466,066
Interbank loans receivable and securities purchased under resale agreement	**6,316,149,870**	18,076,096,271
	P36,591,339,393	P54,784,093,934
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	**P4,120,671,923**	P4,063,503,779
Interest paid	**841,783,482**	837,948,378
Dividends received	**13,871,853**	11,590,456

See Notes to the Financial Statements.

NOTES TO THE Financial Statements

1. Reporting Entity

Bank of Commerce (the "Bank") is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on December 16, 1963. It provides commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, foreign exchange, and trust services.

San Miguel Properties, Inc. (SMPI) and San Miguel Corporation Retirement Plan (SMCRP) hold 39.94% and 39.89% ownership of the Bank's issued shares, respectively, as at December 31, 2017 and 2016, with each having significant influence over the Bank.

The Bank's original authority for its banking license was approved under Monetary Board (MB) Resolution No. 1045 dated October 4, 1963 as The Overseas Bank of Manila. The Bank received its Foreign Currency Deposit Unit (the "FCDU") license and launched its FCDU operations on September 23, 1983. The Bank received its Expanded FCDU license on March 10, 2010. The Bank was renamed Commercial Bank of Manila, Inc. on October 20, 1980, further renamed Boston Bank of the Philippines on July 27, 1988, and finally, Bank of Commerce on November 28, 1991.

On July 13, 2010, the Bangko Sentral ng Pilipinas (BSP) approved the Bank's proposed change of location of its head office and the conversion of its former main office branch as Ayala Avenue Branch and San Miguel Properties Centre Branch to Main Office Branch. Subsequently on February 25, 2011, upon receipt of the related SEC approval of its amended Articles of Incorporation and amended By-laws reflecting this change, the Bank's principal place of business was changed from Phil. First Building, 6764 Ayala Avenue, Makati City to San Miguel Properties Centre, No. 7, St. Francis Street, Mandaluyong City. The Bank has a total of 134 and 132 branches nationwide as at December 31, 2017 and 2016, respectively.

On January 17, 2012, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Bank, before its expiry date of December 16, 2013, for another 50 years or up to December 16, 2063. The said Amended Articles of Incorporation of the Bank were approved by the SEC on January 16, 2013.

2. Basis of Preparation

Statement of Compliance

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRSs which are adopted and issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on March 26, 2018.

Basis of Measurement
The financial statements of the Bank have been prepared on a historical cost basis, except for the following items:

Items	Measurement bases
Financial assets and Financial liabilities at fair value through profit or loss (FVPL)	Fair value
Available-for-sale (AFS) securities	Fair value[1]
Investment properties	Fair value
Land and buildings included in "Property and equipment - net"	Revalued amount
Net retirement liability	Present value of the defined benefit obligation less fair value of plan assets

[1]*Except those whose fair value cannot be reliably measured thus, carried at cost less impairment.*

Functional and Presentation Currency
The accompanying financial statements include accounts maintained in the Regular Banking Unit (the "RBU") and the FCDU. The functional currency of the RBU and the FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated to their equivalents in PHP (see Note 3, *Foreign Currency Transactions and Translation*). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

All values are rounded to the nearest peso unless otherwise stated.

Presentation of Financial Statements
The Bank presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 22.

3. Summary of Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Bank has adopted the following amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Bank's financial statements.

- *Disclosure initiative (Amendments to* PAS 7, *Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The Bank has provided the required information in Note 36 to the financial statements. As allowed under the transition provisions of the standards, the Bank did not present comparative information for the year ended December 31, 2016.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to* PAS 12, *Income Taxes).* The amendments clarify that:

    - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;

    - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

    - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

    - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

- *Annual Improvements to PFRSs 2014 - 2016 Cycle.* This cycle of improvements contains amendments to three standards. Below is the amendment to PFRSs effective for annual periods beginning on or after January 1, 2017, which is relevant but has no significant effect on the financial statements of the Bank:

    - *Clarification of the scope of the standard (Amendments to* PFRS 12, *Disclosure of Interests in Other Entities).* The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are applied retrospectively, with early application permitted.

<u>Foreign Currency Transactions and Translation</u>
Foreign exchange differences arising from foreign currency transactions and re-translations of foreign currency-denominated assets and liabilities to functional currency are credited to or charged as part of “Foreign exchange gains - net” account in the statements of income, except for differences arising from the re-translations of AFS equity securities which are recognized directly in “Net change in net unrealized loss on AFS securities” in other comprehensive income (OCI).

The books of accounts of the FCDU of the Bank are maintained in USD with various transactions in foreign currencies. The foreign currency-denominated income and expenses in the books of accounts are translated into their USD equivalent based on the exchange rates prevailing at the time of transaction. The foreign currency-denominated assets and liabilities at the reporting dates are translated into USD using the Philippine Dealing System (PDS) closing rate at the reporting date.

The foreign currency-denominated monetary assets and liabilities in the RBU are translated in PHP based on the PDS closing rate prevailing at end of the year and foreign currency-denominated income and expenses, at the exchange rates prevailing at transaction dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. For reporting purposes, the FCDU income and expenses are translated to their equivalent in PHP based on the PDS weighted average rate (PDSWAR) for the reporting period. The assets and liabilities of the FCDU at the reporting date are translated into PHP using PDS closing rate at the reporting date.

In accordance with the Manual of Regulations for Banks (MORB), BSP Circular No. 691 issued on June 23, 2010 and PAS 21, *The Effects of Changes in Foreign Exchange Rates*, the exchange differences arising from translation (i.e. PDSWAR vs. PDS closing rate) of FCDU accounts to PHP are taken directly to OCI under “Net movement in cumulative translation adjustment” in the statements of comprehensive income. Foreign exchange differences arising from remeasurement of foreign currency-denominated monetary assets and liabilities in the RBU are credited or charged to “Foreign exchange gains - net” account in the statements of income in the year in which the rates change.

Financial Instruments - Initial Recognition and Subsequent Measurement

(i) Date of Recognition

Regular way purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to: (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Deposit liabilities, bills payable and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Derivatives are recognized on trade date basis. Trade date is the date when an entity commits itself to purchase or sell an asset. Trade date accounting refers to: (a) the recognition of an asset to be received or the liability to be paid on the trade date, and (b) the derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(ii) Initial Recognition of Financial Instruments

All financial instruments, whether financial assets or financial liabilities, are initially measured at fair value. Except for financial assets and financial liabilities valued at FVPL, initial measurement includes transaction costs. The Bank classifies its financial assets into financial assets at FVPL, AFS securities, held-to-maturity (HTM) investments and loans and receivables, while financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The category depends on the purpose for which the financial instruments were acquired or incurred and whether they are quoted in an active market and for HTM investments, the ability and intention to hold the investment until maturity. Management determines the category of its financial instruments at initial recognition and where allowed and appropriate, re-evaluates such designation at every reporting date.

(iii) Classification

(a) Financial Assets and Financial Liabilities at FVPL

Financial assets and financial liabilities at FVPL include financial assets held for trading purposes, derivative instruments and financial assets or liabilities designated at FVPL upon initial recognition.

a. Held for Trading

Trading assets and trading liabilities are initially recognized and subsequently measured at fair value in the statements of financial position, with transaction costs recognized in the statements of income.

Trading assets and trading liabilities are those that the Bank acquire or incur principally for the purpose of selling or repurchasing in the near term, or hold as part of a portfolio that is managed together for short-term profit or position-taking.

b. *Derivatives Recorded at FVPL*
The Bank is a counterparty to derivative contracts, such as currency forwards and warrants. These derivatives are entered into as a service to customers and as a means of reducing or managing and hedging the Bank's respective foreign exchange rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date when the derivative contracts are entered into and are subsequently remeasured at fair value. Any changes in the fair value of derivatives (except those accounted for as accounting hedges) are recognized as part of "Trading and investment securities gains - net" account in the statements of income. Derivatives are carried as derivative financial assets when the fair value is positive and as derivative financial liabilities when the fair value is negative.

For hedge accounting purposes, hedges are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2017 and 2016, the Bank did not apply hedge accounting treatment for any of its derivative transactions.

Embedded derivatives that are bifurcated from the host contracts are also carried at fair value with fair value changes being reported in the statements of income when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative.

The Bank assesses whether embedded derivatives are required to be separated from the host contracts when the Bank first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

As at December 31, 2017 and 2016, the Bank has no outstanding embedded derivatives.

c. *Financial Assets or Financial Liabilities Designated at FVPL*
Financial assets or financial liabilities may be designated at FVPL on initial recognition when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

There are no financial assets and financial liabilities designated at FVPL as at December 31, 2017 and 2016.

Financial assets and financial liabilities designated at FVPL are initially recorded in the statements of financial position at fair value. Changes in fair value are recognized as part of "Trading and investment securities gains - net" account in the statements of income.

In general, interest earned or incurred is recorded as interest income or interest expense, respectively, while dividend income is recorded under "Miscellaneous income" account in the statements of income when the right to receive payment has been established.

(b) *HTM Investments*

HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. Where the Bank reclassifies or sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The Bank would then be unable to categorize financial instruments as HTM investments for the next two (2) years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the investments' effective interest rate (EIR). The amortization is included under "Interest income on debt securities" account in the statements of income. Gains and losses are recognized in the statements of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized under "Credit and impairment losses" account, while reversals of impairment of such investments are recognized under "Reversal of credit and impairment losses" account. The two accounts are netted off in the statements of income. The effects of revaluing foreign currency-denominated HTM investments are recognized in the statements of income.

In 2014, the Bank has tainted its HTM investments when the management decided to transfer certain government securities (GS) under "HTM investments" account to "AFS securities" account. The tainting rule under PAS 39, *Financial Instruments: Recognition and Measurement* prohibits the Bank from classifying securities as HTM investments in the 2 succeeding financial years: 2015 and 2016. The prohibition of classifying securities as HTM investments ended as at December 31, 2016.

(c) *Loans and Receivables*

Loans and receivables include cash and other cash items (COCI) exclusive of cash on hand, amounts due from BSP and other banks, interbank loans receivable and securities purchased under resale agreement (SPURA), loans and receivables from customers, sales contract receivables, unquoted debt securities, accrued interest receivable, accounts receivable and other receivables. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified under any other financial asset category.

After initial measurement, loans are subsequently measured at amortized cost using the effective interest method, less any allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is recognized in the statements of income as interest income.

When the estimated cash flows from the financial assets are revised, the carrying amount of the financial asset shall be adjusted to reflect the actual and revised estimated cash flows. The carrying amount shall be computed as the present value of estimated future cash flows at the financial instrument's original EIR, or, when applicable, the revised EIR. Any impairment losses shall be recognized as "Credit and impairment losses" account, while reversals are recognized under "Reversal of credit and impairment losses" account. The two accounts are netted off in the statements of income.

Where there is a subsequent increase in the estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.

(d) AFS Securities

AFS securities are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and may be held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS securities include equity securities, money market instruments, GS and private debt securities.

After initial recognition, AFS securities are subsequently measured at fair value. The effective yield component of AFS debt securities is reported in the statements of income. The impact of translation adjustment on foreign currency-denominated AFS debt securities is also reported in the statements of income. The unrealized gains and losses arising from the fair valuation of AFS securities are excluded, net of tax, from the statements of income and reported as OCI and presented under "Net unrealized losses on AFS securities" account in the equity section of the statements of financial position.

When the AFS securities are disposed, the cumulative gains or losses previously recognized in equity are recognized in the period of disposal under "Trading and investment securities gains - net" account in the statements of income. Where the Bank holds more than one (1) investment in the same security, these are deemed to be disposed on a first-in first-out basis. Interest earned on holding AFS debt securities are reported as part of "Interest income on debt securities" in the statements of income using the effective interest method. Dividends earned on holding AFS equity securities are recognized in the statements of income as "Miscellaneous income" when the right to receive payment has been established. The losses arising from impairment of such investments are recognized under "Credit and impairment losses" account, while reversals of impairment of such investments are recognized under "Reversal of credit and impairment losses" account. The two accounts are netted off in the statements of income.

Investments in unquoted equity instruments whose fair value cannot be reliably measured are carried at cost less impairment loss.

(e) *Other Financial Liabilities*
Issued financial instruments or their components are classified as liabilities under appropriate financial liability accounts where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank, 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 its own equity securities. 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.

After initial measurement, borrowed funds and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at cost or 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 financial liabilities included under "Accrued interest, taxes and other expenses" and "Other liabilities" accounts, except those that are due and expected to be paid within 1 year from reporting date.

(iv) *Reclassification of Financial Assets*
A financial asset held for trading is reclassified out of the FVPL category when the following conditions are met:

- The financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and

- There is a rare circumstance affecting the assumptions made by the Bank in classifying the financial asset as part of FVPL.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss previously recognized in the statements of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Trading assets and trading liabilities are not reclassified subsequent to their initial recognition, except non-derivative trading assets not designated at FVPL if they are no longer held for the purpose of being sold or repurchased in the near term.

The Bank may also reclassify certain AFS securities to HTM investments when there is a change of intention and the Bank has the ability to hold the financial instruments to maturity.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
(i) *Financial Assets*
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Bank has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of ownership of the asset; or (b) has neither transferred nor retained the risks and rewards of ownership of the asset but has transferred the control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) *Financial Liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statements of income.

Repurchase and Reverse Repurchase Agreements
Securities sold under repurchase agreements at a specified future date ("repos") are not derecognized from the statements of financial position. The corresponding cash received, including accrued interest, is recognized in the statements of financial position as liability of the Bank, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ("reverse repos") are not recognized in the statements of financial position. The corresponding cash paid, including accrued interest, is recognized in the statements of financial position as securities purchased under resale agreement, and is considered as a loan to the counterparty. The Bank is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. The difference between the purchase price and resale price is treated as interest income in the statements of income and is amortized over the life of the agreement using the effective interest method.

Impairment of Financial Assets
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of 1 or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) have 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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) *Financial Assets Carried at Amortized Cost*

For financial assets carried at amortized cost, which include HTM investments and loans and receivables, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original EIR of the financial asset (excluding future credit and impairment losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against current operations. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables and HTM investments, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized such as an improvement in the debtor's credit rating, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized under "Reversal of credit and impairment losses" in the statements of income. Meanwhile, collections from defaulted customers not yet written-off are charged-off against "Allowance for credit and impairment losses" under "Loans and receivables - net" in the statements of financial position.

If a future write-off is later recovered due to subsequent collections from the defaulted customer, any amounts formerly charged against operations are credited to "Recovery for charged-off asset" included under "Miscellaneous income" account in the statements of income.

The estimated future cash flows are discounted at the financial asset's original EIR. If a financial asset carried at amortized cost 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 flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (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 Bank to reduce any differences between loss estimates and actual loss experience.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. The loans continue 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 as "Reversal of credit and impairment losses" in the statements of income.

(ii) AFS Securities
For AFS securities, the Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity securities classified as AFS securities, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is objective evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the equity securities previously recognized in the statements of income – is taken out from "Net unrealized losses on AFS securities" under equity and recognized in the statements of income for the period. Impairment losses recognized in the statements of income on equity securities classified as AFS are not reversed through the statements of income but recognized directly in equity as part of OCI.

If there is objective evidence that an impairment loss on financial assets carried at cost had been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses for AFS securities carried at cost are not reversed in subsequent periods.

In the case of debt instruments classified as AFS securities, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recognized in the statements of income as part of interest income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statements of income for the period.

'Day 1' Difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) as part of current operations in the period when the asset is acquired or the liability is incurred. In cases where the transaction price used is based on inputs which are not observable, the difference between the transaction price and model value is only recognized as part of current operations in the period when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Offsetting
Financial assets and financial liabilities are offset with the net amount reported in the statements of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, as the related assets and liabilities are presented gross in the statements of financial position.

As at December 31, 2017 and 2016, the Bank did not have any financial instrument that qualified for offsetting.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include COCI, amounts due from BSP and other banks and interbank loans receivable and SPURA with original maturities of three (3) months or less from dates of placement and that are subject to insignificant risk of changes in value.

COCI consist of cash on hand and checks and other cash items. Cash on hand refers to the total amount of cash in the Bank's vault in the form of notes and coins under the custody of the cashier/cash custodian or treasurer, including notes in the possession of tellers and those kept in automated teller machines (ATMs).

Financial Guarantees
In the ordinary course of business, the Bank issues financial guarantees in favor of other parties. Financial guarantees are initially recognized in the financial statements at fair value, and the initial fair value is amortized over the life of the financial guarantee. The guaranteed liability is subsequently carried at the higher of the amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Investment in Associate

An associate is an entity over which the Bank has significant influence but no control. This is a rebuttable presumption in case the equity interest of the Bank in an entity is between 20.0% and 50.0%. The Bank's equity investment in BIC Management and Consultancy, Inc. (formerly Bancommerce Investment Corporation) (BIC) represents 24.25% of BIC's capital stock. Accordingly, the Bank's equity investment in BIC is treated as an investment in an associate accounted for under the equity method of accounting since there is no indication of control.

Under the equity method, an investment in an associate is carried in the statements of financial position at cost plus post-acquisition changes in the Bank's share in the net assets of the associate. Goodwill relating to an associate is included in the carrying value of the investment and is not amortized. The Bank's share in an associate's post-acquisition profits or losses is recognized in the statements of income, and its share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an associate are eliminated to the extent of the Bank's interest in the associate.

The reporting period of BIC is on a calendar year basis. BIC's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Property and Equipment

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes after deducting trade discounts and rebates, and any cost that are directly attributable to bringing the property and equipment to its location and condition necessary for it to be capable of operating in the manner intended by management. Expenditures incurred after the property and equipment have been put to operation, such as repairs and maintenance, are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in the increase in the future economic benefits 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.

Land and building are stated at appraised values less any subsequent accumulated depreciation on buildings and any subsequent impairment in value recognized after the date of revaluation. Revaluations are made with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The fair value of the revalued asset is reassessed after 3 years from the previous revaluation, except when indicators of significant movement in fair value exist.

If the carrying amount of land and building is increased as a result of a revaluation, the increase shall be recognized in OCI and accumulated in equity under "Revaluation increment on property and equipment and investment properties - net of tax" account in the statements of financial position. However, the increase shall be recognized in the statements of income to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statements of income.

If the carrying amount of land and building is decreased as a result of a revaluation, the decrease shall be recognized in the statements of income. However, the decrease shall be recognized in OCI to the extent of any revaluation gains existing in the revaluation increment on property and equipment. The decrease recognized in OCI reduces the amount accumulated in equity under "Revaluation increment on property and equipment and investment properties - net of tax" account in the statements of financial position.

An annual transfer from asset revaluation increment on property and equipment is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred in full directly to "Retained Earnings" account in the statements of financial position.

Leasehold improvements and furniture, fixtures and equipment are carried at cost less accumulated depreciation and amortization, and any impairment in value.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the terms of the related lease, whichever is shorter.

Estimated useful lives of property and equipment are as follows:

	Years
Buildings	50
Furniture, fixtures and equipment	3 - 7
Leasehold improvements	5 - 15

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statements of income in the period the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted if appropriate, at each reporting date.

<u>Investment Properties</u>

Investment properties are composed of assets acquired from foreclosure or dacion en pago and land and building that are vacant and no longer used for administrative purposes (previously owner-occupied property), and are initially measured at cost including transaction costs. An investment property acquired through an exchange transaction is initially recognized at the fair value of the asset acquired unless the fair value of each asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, investment properties acquired from foreclosure or dacion en pago are carried at fair value, which reflects the prevailing market conditions at the reporting date. Gains or losses resulting from the changes in the fair values of investment properties are recognized under “Fair value gain from investment properties” account in the statements of income in the period in which they arise. Fair value is determined by reference to market-based measurement. The valuations performed by the appraisers are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property.

An investment property previously used as owner-occupied property is carried at fair value and any difference at the date of the change between the carrying amount of the property and its fair value shall be recognized as OCI and accumulated in equity under “Revaluation increment on property and equipment and investment properties - net of tax” in accordance with PAS 16, *Property, Plant and Equipment,* even if the property was previously measured using the cost model under PAS 16. Any existing or arising revaluation increment previously recognized in OCI is not transferred to the statements of income at the date of transfer. However, on subsequent disposal, any existing revaluation increment that was previously recognized when the Bank applied the PAS 16 revaluation model to the property sold is transferred in full to retained earnings.

Repairs and maintenance costs relating to investment properties are normally charged to statements of income in the period in which the costs are incurred.

An investment property is derecognized when it has either been disposed of or when it is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on derecognition of an investment property is recognized in the statements of income under “Gains on foreclosure and sale of property and equipment and foreclosed assets - net” account in the period of derecognition.

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

Other Properties Acquired

Other properties acquired, included under “Other assets” account in the statements of financial position, include chattel mortgage properties foreclosed in settlement of loan receivables. The Bank applies the cost model in accounting for these assets. Under the cost model, these assets are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment in value.

Depreciation is computed on a straight-line basis over the estimated useful life of 3 to 5 years. The estimated useful life 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 other properties acquired.

The carrying values of the other properties acquired 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 assets are written down to their recoverable amounts (see accounting policy on Impairment of Non-financial Assets).

An item of other properties acquired is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statements of income under “Gains on foreclosure and sale of property and equipment and foreclosed assets - net” account in the period of derecognition.

Intangible Assets

Intangible assets consist of software costs and branch licenses. Intangible assets acquired separately, included under “Other assets” account in the statements of financial position, are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets are not capitalized but recognized in the statements of income in the period when the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the economic useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the statements of income under the expense category consistent with the function of the intangible asset. 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 statements of income in the period when the asset is derecognized.

Branch Licenses

Branch licenses are granted by BSP and capitalized on the basis of the costs incurred to acquire and bring to use in operation. Branch licenses are determined to have indefinite useful lives and are tested for impairment annually.

Software Costs

Software costs include costs incurred relative to the purchase of the Bank’s software and are amortized on a straight-line basis over 5 years. Software costs are carried at cost less accumulated amortization and any impairment in value.

Non-current Assets Held for Sale

Non-current assets held for sale include assets with or without improvements that are to be recovered principally through a sale transaction rather than through continuing use, available for immediate distribution in their present condition, highly probable to be sold within one year, and are included in the sales auction program for the year. Assets held for sale are stated at the lower of its carrying amount and fair value less costs to sell.

The Bank measures a non-current asset that ceases to be classified as held for sale at the lower of:

- the carrying amount before the non-current asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the non-current asset not been classified as held for sale; and

- the recoverable amount at the date of the subsequent decision not to sell.

The Bank includes any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in income from continuing operations in the year in which the asset ceases to be held for sale.

Impairment of Investment in Associate and Non-financial Assets

Non-current Assets Held for Sale, Investment in Associate, Property and Equipment, Other Properties Acquired and Intangible Assets under "Other Assets"

At each reporting date, the Bank assesses whether there is any indication of impairment on non-current assets held for sale, investment in associate, property and equipment, other properties acquired and intangible assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the net recoverable amount. The net recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the net recoverable amount is assessed as part of the cash-generating unit to which it belongs. Value in use is the present value of future cash flows expected to be derived from an asset or cash-generating unit while fair value less cost to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties less any costs of disposal. Where the carrying amount of an asset (or cash-generating unit) exceeds its net recoverable amount, the asset (or cash-generating unit) is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged against operations in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged first to the revaluation increment of the said asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the net recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's net recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its net recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the statements of income.

After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Fair Value Measurement

The Bank measures financial instruments, such as, financial assets and financial liabilities at FVPL, AFS securities, and non-financial assets such as investment properties, property and equipment, and net retirement liability which is measured at present value of the defined benefit obligation less fair value of plan assets, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 6.

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 to by the Bank.

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 best economic interest.

The 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 Bank 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.

The Bank determines the policies and procedures for recurring fair value measurement, such as for financial assets at FVPL, AFS securities, investment properties, and land and building.

External valuers are involved for valuation of significant assets such as investment properties and property and equipment. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in Note 6.

Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the income can be reliably measured. Expense is recognized when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen to the Bank that can be measured reliably.

Determining whether the Bank is Acting as a Principal or an Agent
The Bank assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Bank has primary responsibility for providing the services;
- whether the Bank has discretion in establishing prices; and
- whether the Bank bears the credit risk.

The Bank has determined that it is acting as a principal in its revenue arrangements except for activities where the Bank acts in a fiduciary or custodian capacity such as nominee, trustee, or agent. The Bank recognizes income from fiduciary and custodianship activities under "Service charges, fees and commission" account in the statements of income.

The following specific recognition criteria must also be met before income and expense are recognized:

Interest Income and Interest Expense
Interest income and interest expense are recognized in the statements of income for all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS securities as they accrue, using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all the contractual terms of the financial instruments including any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate, but not future credit losses. The EIR is established on initial recognition of the financial asset and liability and is not revised subsequently. The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The change in carrying amount is recognized in statements of income as interest income or expense.

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.

Trading and Investment Securities Gains or Losses
Trading and investment securities gains or losses represent results arising from disposal of AFS securities and trading activities (realized gains and losses) and from the changes in fair value of financial assets and financial liabilities at FVPL (unrealized gains or losses).

Service Charges, Fees and Commissions
Fees and commission income is recognized to the extent that an inflow of economic benefits is probable and that the amount of revenue can be reliably measured. Fees and commission income is recognized at the fair value of the consideration received/receivable.

Fees and commission income and expenses that are integral to the EIR of a financial asset or liability are included in the measurement of the EIR. If the fees are received upfront, these are either recognized outright or amortized over time as the related services are performed. Commitment fees for facilities where a drawdown is not generally expected must be recognized over the facility period.

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to their collectability. Fees earned for the provision of services over a period of time are accrued over that period.

Fees and commissions include loan upfront fees, commitment fees, guarantee fees, investment fund fees, custodian fees, fiduciary fees, portfolio and other management fees.

Fees and commission expense are recognized when incurred.

Dividends
Dividends are recognized when the Bank's right to receive the dividends is established.

Rental Income
Payments received under operating lease arrangements are recognized in the statements of income on a straight-line basis over the term of the lease.

<u>Employee Benefits</u>
Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has presented legal or constructive obligation to pay this amount as a result of past service provided by the employer and the obligation can be estimated reliably.

Retirement Benefits
The Bank has a funded, noncontributory defined benefit plan administered by a trustee. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. The retirement cost is generally funded through payments to a trustee-administered fund, determined by annual actuarial calculations.

The retirement benefits liability recognized in the statements of financial position in respect of the defined benefits retirement plan (see Note 28) is the present value of the defined benefits obligation at the valuation date less the fair value of plan assets. The defined benefits obligation is calculated annually by an independent actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefits obligation is determined by discounting the estimated future cash outflows using interest rate on high quality government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement liability.

Remeasurements of the defined benefit liability, which include actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Bank determines the net interest expense (income) on the retirement benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the retirement benefit liability (asset), taking into account any changes in the retirement liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in the statements of income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the statements of income.

The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or

(d) There is a substantial change to the asset.

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

Bank as a 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 statements of income on a straight-line basis over the lease term.

Bank as a Lessor

The Bank is also a party to operating leases as a lessor. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and amortized over the lease term on the same basis as the rental income. Contingent rentals are recognized as income in the period in which they are earned.

Income Taxes

Current Tax

Current income tax is the expected tax payable on the taxable income for the year using the tax rates enacted at the reporting date.

Deferred Tax

Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from the excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carry-over (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the year 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 reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank 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 charged to current operations, 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent Assets and Contingent Liabilities

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

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

Events After the Reporting Date
Post year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

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 Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Standards and Amendments to Standards Issued But Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. The Bank has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements.

The Bank will adopt these new standards and amendments to standards in the respective effective dates as discussed below:

To be Adopted on or after January 1, 2018

- PFRS 9*, Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 but comparative information is not compulsory. The Bank plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The impact of the adoption of PFRS 9 will be recognized in the opening January 1, 2018 Retained Earnings and OCI as if the Bank had always followed the new requirements.

  a. Classification and Measurement
     PFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. PFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI), or FVPL.

A financial asset whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding can be measured as either at amortized cost if the financial asset is managed on a "hold to collect" basis or at FVOCI if it is managed on a "hold to collect and for sale" basis. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. The Bank may irrevocably designate a financial asset as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI.

The standard will affect the classification and measurement of financial assets held as at January 1, 2018 as follows:

i. Trading assets and derivative assets, which are classified as held-for-trading and measured at FVPL under PAS 39, will also be measured at FVPL under PFRS 9.
ii. Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortized cost under PAS 39 will generally be measured at amortized cost under PFRS 9.
iii. HTM investments measured at amortized cost under PAS 39 will generally be measured at amortized cost under PFRS 9.
iv. Debt securities that are classified as AFS securities under PAS 39 are expected to be classified under PFRS 9 as either at amortized cost or FVOCI with recycling to profit or loss depending on how the debt securities will be managed by the Bank.
v. Equity securities that are classified as AFS securities under PAS 39 are expected to be measured at FVPL, except for certain equity securities that will be designated as FVOCI with no recycling to profit or loss.

The Bank does not expect any significant change in the classification and measurement of its financial liabilities held as at January 1, 2018.

b. Impairment

PFRS 9 replaces the "incurred loss" model in PAS 39 with a forward-looking "expected credit loss" (ECL) model. The new impairment model applies to all debt financial assets that are not measured at FVPL, including loan commitments and financial guarantee contracts but not to equity securities.

Expected credit loss methodology

Under PFRS 9, the Bank shall measure ECL in a way that reflects an unbiased and probability-weighted amount that 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. PFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECL or lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date. Under the "incurred loss" model in PAS 39, lifetime ECLs are recognized only when there is objective evidence of impairment, while under the ECL model in PFRS 9, the "incurred loss event" is eliminated and lifetime ECLs are recognized earlier.

Staging assessment
For non-impaired financial instruments:

- Stage 1: Comprised of performing financial instruments which have not experienced significant increase in credit risk since initial recognition. This stage recognizes a 12-month ECL for the financial instruments categorized under this group.

- Stage 2: Comprised of under-performing financial instruments which have experienced a SICR since initial recognition. This stage recognizes a lifetime ECL for the financial instruments categorized under this group.

For credit-impaired financial instruments:

- Stage 3: Comprised of non-performing financial instruments with one or more loss events occurring since the original recognition. Financial instruments falling within this stage have objective evidence of impairment thus requiring the recognition of lifetime ECL.

Definition of "default" and "cure"
The Bank generally classifies a financial instrument as in default when it is credit impaired, or becomes past due on its contractual payments for more than 90 days. In assessing whether a borrower is in default, the Bank will consider indicators that are qualitative (i.e. breach of covenant) and quantitative (i.e. overdue status and non-payment on another obligation of the same borrower/issuer to the Bank). An instrument is considered to be no longer in default (i.e. to have cured) when there is sufficient evidence to support that full collection of principal and interests is probable and payments are received for at least six (6) months. This definition is consistent with the definition of non-performing loans (NPL) under BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-Performing Loans*.

Credit risk at initial recognition
The Bank makes full use of its Internal Credit Risk Rating System (ICRRS) to determine the credit risk of exposures at initial recognition. The ICRRS is devised to assess the level of risk associated with each borrower using a combination of both quantitative and qualitative factors. Subsequent credit assessments and approvals are also considered in determining the credit risk.

Significant increase in credit risk
The definition for the SICR will vary by portfolio. The determination of the change in credit risk includes both quantitative and qualitative factors.

The credit risk of rated financial instruments is deemed to have increased significantly since initial recognition if the credit worthiness of the counterparty deteriorated, exhibited by a significant credit rating downgrade, which suggests an inherent credit weakness. For unrated financial instruments, the significant increase in credit risk is measured using the number of days past due and a specific threshold. This is also consistent with the staging criteria presented above.

ECL parameters and methodologies
ECL is a function of the following credit risk parameters: i) Probability of Default (PD), ii) Loss Given Default (LGD), and iii) Exposure at Default (EAD).

The PD is the measure of likelihood that a borrower will be unable to settle his or her obligation/s on time and in full. The PD can be modelled to estimate the probability of going into default within a 12-month horizon and/or lifetime horizon using historical data as well as future economic outlooks. The Bank uses its internal credit risk rating system to segment exposures with homogenous risk characteristics. PD estimate being one of the fundamental basis for credit risk modelling, plays a vital role in the estimation of expected credit losses for the Bank.

LGD measures the percentage amount of credit losses incurred and not recovered at the time of default. LGD estimation can be modelled based on historical cash flow recoveries paired with supportable information about future economic condition. Calculating the LGD may be pretty straightforward for some assets but most of the time, several parameters need to be considered in order to come up with a more reliable LGD estimate including the collateral data.

EAD is defined as the outstanding amount of credit exposure at the time of default. EAD is estimated by modelling the historical data on both the actual drawn and undrawn amounts for each credit facility. This provides a more robust estimate of the total amount to the Bank is exposed.

The Bank is in the process of completing its assessment of the impact of PFRS 9 on its financial statements and is yet to have reasonable estimates of quantitative impact. The Bank expects that it could have a significant impact on its allowance for credit and impairment losses due to changes brought by the new ECL requirements of PFRS 9.

- PFRS 15*, Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall within the scope of other PFRS. It also does not apply if 2 companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRSs takes precedence.

  The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

  The Bank is in the early stages of assessing the potential impact on its financial statements resulting from the application of PFRS 15 and is yet to have reasonably estimable information on such impact. However, the Bank expects that it could have an impact on the Bank's service fees and commissions due to the changes in the revenue recognition model under PFRS 15.

- *Transfers of Investment Property (Amendments to* PAS 40*, Investment property)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e., an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

  The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- *Philippine Interpretation* IFRIC-22, *Foreign Currency Transactions and Advance Consideration*. The amendments clarifies that the transaction date to be used for translation of foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

  The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

To be Adopted on or after January 1, 2019

- PFRS 16*, Leases supersedes* PAS 17, *Leases and the related Philippine Interpretations.* The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

  The Bank will be assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

- *Philippine Interpretation* IFRIC-23, *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

- *Prepayment Features with Negative Compensation (Amendments to* PFRS 9*)*. The amendments cover the following areas:

  - Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

    The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

  - Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

  If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

4. Critical Judgments and Estimates

The preparation of financial statements in conformity with PFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses, and disclosures of contingent assets and contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant Judgments

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

(a) Functional Currency

PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

a) the currency that mainly influences sales prices for financial instruments and services;

b) the currency in which funds from financing activities are generated; and

c) the currency in which receipts from operating activities are usually retained.

(b) Embedded Derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statements of financial position under "Financial Assets at FVPL" account (see Note 8).

(c) *Financial Assets not Quoted in an Active Market*

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

(d) *Provisions and Contingencies*

The Bank, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations in accordance with its policies on provisions and contingencies. Judgment is exercised by management to distinguish between provisions and contingencies (see Note 32).

(e) *Operating Leases*

Bank as Lessor
The Bank has entered into commercial property lease agreements for its property and equipment, and investment properties. The Bank has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out under operating lease agreements.

Bank as Lessee
The Bank has entered into operating lease agreements for the premises it uses for its operations. The Bank has determined that all significant risks and rewards of ownership of the properties it leases on operating lease arrangements are retained by the lessor.

In determining whether or not a lease should be treated as an operating lease, the retention of ownership title to the leased property, period of lease contract relative to the estimated economic useful life of the leased property and bearer of executory costs, among others, are considered.

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) *Fair Value of Financial Instruments*

Where the fair values of financial assets and financial liabilities (including derivatives) recognized in the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These estimates may include consideration of liquidity, volatility and correlation. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

(b) *Impairment of AFS Securities*

The Bank classifies certain financial assets as AFS securities and recognizes movements in their fair values as OCI. When their fair values decline, management makes assumptions about the decline in value to determine whether it is an objective evidence of impairment. The recognition of an impairment loss, representing the net unrealized losses previously reported as part of equity, may be appropriate when there is evidence of deterioration in the financial health, industry and sector performance, and operational and financing cash flows of the investee.

The Bank treats AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Bank treats "significant" generally as 20.0% or more of the original cost of the investment, and "prolonged" if greater than 6 months. In addition, the Bank evaluates other factors, including normal volatility in share prices for quoted equity securities, and the future cash flows and the discount factors for unquoted equities.

The Bank determines that AFS debt securities are impaired based on the same criteria as loans and receivables.

The carrying values of AFS securities and the related allowance for impairment losses are disclosed in Notes 9 and 17.

(c) Credit and Impairment Losses on Loans and Receivables

The Bank reviews its loans and receivables portfolio to assess impairment at least on an annual basis or more frequently as deemed necessary. Loans and receivables that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment on a collective basis. In determining whether an impairment loss should be recognized in the statements of income, the Bank makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank determines the appropriate allowance for individual accounts whose outstanding balance as at reporting date is either past due or under litigation as at reporting date.

Based on the allowance provided by the Bank for credit and impairment losses, management believes that the Bank has sufficient allowance to cover any losses that the Bank may incur from non-collection or non-realization of its receivables.

The carrying values of loans and receivables and the related allowance for credit losses are disclosed in Notes 11 and 17.

(d) *Impairment of Investment in Associate and Non-financial Assets*

Non-current Assets Held for Sale, Investment in Associate, Property and Equipment, Other Properties Acquired, and Intangible Assets under "Other Assets"

The Bank assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its net recoverable amount. Net recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The carrying values of non-current assets held for sale, investment in associate, property and equipment, other properties acquired and intangible assets under "Other Assets" are disclosed in Notes 12, 13, 14 and 16, respectively.

(e) *Estimated Useful Lives of Property and Equipment, Other Properties Acquired and Software Costs*

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

The estimated useful lives of property and equipment, other properties acquired and software costs are disclosed in Note 3.

(f) *Fair Value Determination of Investment Properties and Revaluation of Property and Equipment*

The Bank carries its investment properties at fair value, with changes in fair value being recognized in the statements of income for investment properties acquired from foreclosure or dacion en pago and in the OCI for investment properties previously used as owner-occupied property. In addition, it measures land and building under "Property and equipment - net" in the statements of financial position at revalued amounts with changes in appraised value being recognized in OCI. Fair value of investment properties is derived on the basis of recent sales of similar properties in the same areas where the investment properties are located taking into account the economic conditions prevailing at the time of the valuation made. The Bank engaged various accredited independent appraisers to determine the appraised value of land and building on a periodic basis. The valuations performed by the appraisers are based on market prices of similar properties in the same areas the land and building are located, adjusted for any difference in the nature, location or condition of the specific property.

The appraised value of land and building and the fair value of investment properties are disclosed in Notes 14 and 15, respectively.

(g) Recognition of Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that sufficient taxable income will be available against which the related tax benefits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the forecasted timing and amount of future taxable income together with future tax planning strategies.

The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized and the unrecognized deferred tax assets are disclosed in Note 31.

(h) Present Value of Retirement Benefit Obligation

The cost of retirement benefits and other post-employment benefits are determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the prevailing market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. The present value of the Bank's retirement obligation and the fair value of plan assets are disclosed in Note 28.

(i) Contingencies

The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed by management, in consultation with the legal counsels handling the Bank's legal defense in these matters, and is based upon an analysis of potential results. The Bank's management currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 32).

5. Financial Risk Management Objectives and Policies

Introduction

The business of banking involves financial risks which must be measured, monitored and managed by an effective risk management system embedded throughout the whole organization. Effective risk management ensures that financial risks are properly identified, assessed, measured and managed. The diligent monitoring and management of all financial risks, notably credit, market, and liquidity risk require the development of a risk-conscious culture that will influence daily business activities and decision-making.

The Bank believes that effective risk management will not only minimize potential or actual losses but will also optimize earnings by correctly pricing its products and services commensurate to the risks taken. Its risk mission and objectives are to consistently and accurately measure risks, to always consider risk and return in evaluating transactions and exposures while preserving and maintaining adequate risk-based capital and to ensure adequate returns on such capital. Risk mitigation strategies form an integral part of risk management activities.

Risk Management Structure

The BOD is ultimately responsible for identifying and controlling risks; however, there are separate independent units at the BOD and management levels, responsible for managing and monitoring financial risk.

BOD

The BOD has the responsibility of promoting the highest standards of ethics and integrity. The BOD has management oversight for establishing and maintaining a sound risk management system for the whole institution. The BOD approves and reviews the institutional tolerance for risks, business strategies and risk philosophy.

Corporate Governance Committee

The Corporate Governance Committee is tasked to assist the BOD in fulfilling its corporate governance responsibilities and in providing oversight in the implementation of the Bank's Compliance System.

Related Party Transactions Committee (RPTCom)

The RPTCom assists the BOD in fulfilling its corporate governance responsibility with respect to related parties and transactions with them. It covers proper identification of related parties, recording and vetting of transactions with them including disclosures in financial reports, which must be consistent with relevant legal and regulatory requirements, and Bank policies.

Audit Committee

The Audit Committee represents and assists the BOD in its general oversight of the Bank's financial reporting policies, practices and control and internal and external audit functions. It oversees the relationship with the independent external auditors, receives information and provides advice, counsel and general direction, as it deems appropriate, to management and the auditors, taking into account the information it receives, discussions with the auditor, and the experience of the Committee's members in business, financial and accounting matters.

Board Risk Oversight Committee (BROC)

The BROC, a sub-committee of the BOD, oversees the Bank's risk management system. It has the power to approve procedures for implementing risk and capital management policies. The BROC shall assist the BOD with its oversight function to identify and evaluate risk exposures, develop risk management strategies, implement and periodically review the risk management framework and promote a risk management culture in the Bank.

Risk Management Division (RSK)

The RSK is responsible for the creation and oversight of the Bank's corporate risk policy. It is responsible for making recommendations to the BOD on corporate policies and guidelines for risk measurement, management and reporting. It also reviews the system of risk limits, compliance to said limits and validates the reports of the risk-taking personnel. The RSK reports to the BROC.

Asset Liability Management Committee (ALCO)
The ALCO shall be responsible for setting, developing and implementing the Bank's Asset Liability Management and hedging policy. It also reviews the allocation of resources, pricing products and foreign exchange position of the Bank.

ICAAP Steering Committee (ICAAPcom)
The ICAAPcom is responsible for overseeing the Bank's ICAAP to ensure that mandated minimum capital requirements are met and that capital levels are sufficient to cover the Bank's risk exposures driven by its strategic plans.

Credit and Collections Committee (Crecom)
The Crecom is responsible for the evaluation and approval of credit proposals based on a hierarchy of delegated credit authorities from the BOD. It is also tasked to review other credit-related matters, including amendments or revisions to existing policies as well as proposed credit risk policies for BOD approval. They are tasked with formulating standards for credit evaluation/analysis, diligence in credit assessment and reporting disclosure. It recommends credit risk management policies for BOD approval.

Internal Audit Division
Internal Audit Division is an independent unit of the Bank that conducts objective assurance and consulting activities designed to add value and improve the Bank's operations. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to examine, evaluate and improve the effectiveness of risk management, internal control and governance processes of the Bank.

Legal Services Division
The primary functions of the Bank's Legal Services Division are composed of rendering legal advice and document review to ensure that relevant laws are complied with, the Bank's interest is duly protected, and identified risks are either eliminated or minimized and imparted to responsible units of the Bank. The Division also handles cases filed for and against the Bank.

Compliance Division
The Compliance Division oversees the management of the Bank's compliance with regulatory requirements. It is responsible for implementing the Bank's Compliance Program and the Money Laundering and Terrorist Financing Prevention Program.

<u>Risk Measurement and Reporting Systems</u>
The Bank's capital adequacy is determined by measuring credit, market and operational risk exposures using standardized or basic approaches as suggested by BSP. Risk exposures are measured both individually and in aggregate amounts.

Risk measurements are done by respective risk-taking personnel and groups but are independently validated, analyzed and reported by the RSK.

Market risks are measured by mark-to-market and Value-at-Risk analyses on the overall exposure, on a portfolio level, and on each individual financial instrument. These exposures are also subjected to stress testing using a variety of historical and hypothetical scenarios.

Quality of credit risks are measured via risk classifications of accounts using ICRRS together with BSP risk classification of borrowing accounts. Senior management evaluates the required provisions for loan losses based on these data on a monthly basis. All risk information are processed, analyzed and consolidated for proper reporting to the BOD through the BROC and Audit Committee as well as the Senior Executive Team of the Bank.

Actual and estimated risk exposures/losses at Treasury, Credit Management, Consumer Business and Credit Cards, Operations and Information Technology, Trust and Branches are consolidated for regular reporting. Reports include, among others, portfolio mix, liquidity and maturity matching, interest rate matching, trading gains and losses, sensitivity and back-testing results, top borrowers, non-performing assets and loans, industry exposures, large exposures, fines and penalties, employee fraud cases, service level of major information technology systems and ATMs.

Risk Mitigation

To mitigate market risk exposures, other financial instruments are used to manage exposures resulting from changes in foreign currency and interest rate risk. The Bank also observes limits on positions, losses, and market sensitivities to contain these risk exposures.

The Bank maintains a capital adequacy ratio (CAR) of ten percent (10.0%) or better at all times, for regulatory compliance purposes. Internally, based on its ICAAP, the Bank maintains an Internal CAR threshold of 12% which is the minimum level of CAR acceptable to the Board and a 14% Management Action Trigger which shall serve as alert and will trigger discussions among Senior Management and the Board for the necessary strategic direction or tactical steps related to the Bank's capital contingency plan.

Risk Concentration

The Bank manages loan concentration by controlling its mix of counterparties or borrowers in accordance with conditions permitted by regulators. Borrowers that are considered large in size are regularly monitored and reported to the BROC. Also, the limits for exposure on specific economic activity groups are in place allowing the Bank to maintain a strategic breakdown of credit risk of different segments. Having these controls in place allows the Bank to proactively monitor exposure status and act upon limit breaches whenever necessary.

Credit Risk

The Bank considers credit risk as the possibility of loss arising from the counterparty's or customer's inability or unwillingness to settle his/her obligations on time or in full as expected or previously contracted.

The Bank has in place a credit policy manual that defines all practices, policies and procedures regarding loan activities from identification of target markets, credit initiation, documentation and disbursement, loan administration, remedial management and loan unit organization and staffing. Also, it has in place credit approval authorities and respective limits duly approved by the BOD.

The Bank's primary element of credit risk management is the detailed risk assessment of every credit exposure associated with the counterparty. Risk assessment procedures consider both the creditworthiness of the counterparty and the risks related to the specific type of underlying credit exposures as mandated by circulars issued by BSP. The risk assessment not only affects the structuring of the transaction and the outcome of the credit decision, but also influences the monitoring procedure applied to the ongoing exposures.

There has been no material change to the Bank's exposure to credit risk or the manner in which it manages and measures the risk since prior financial year.

Derivative Financial Instruments
The Bank enters into currency forward contracts to manage its foreign exchange risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future. These derivatives are accounted for as non-hedges, with the fair value changes being reported in the statements of income for the period under "Foreign exchange gains - net" account. Credit risk in respect of derivative financial instruments is limited to those with positive fair values, which are reported as financial assets at FVPL.

Credit-related Commitment Risks
The Bank makes available to its customers guarantees which may require the Bank to make payment on their behalf. Such payments are collected from customers based on the terms of the letters of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

Credit Risk Exposures
The table below shows the Bank's maximum exposure for receivables from customers and sales contract receivables, net of unearned interest income and allowance for credit and impairment losses, before and after collateral to credit risk as at December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Receivables from customers:				
Term loans	**P50,041,066,198**	**P46,120,809,685**	P38,359,254,539	P33,814,301,380
Housing loans	**5,297,974,117**	**3,176,187,491**	3,741,296,674	3,292,025,040
Auto loans	**2,995,660,391**	**876,607,131**	2,543,549,166	376,339,689
Bills purchased, import bills and trust receipts	**1,297,355,954**	**1,270,787,129**	1,176,598,301	1,172,310,909
Agri-agra loans	**1,058,708,467**	**1,003,121,320**	938,257,916	732,266,777
Direct advances	**884,468,678**	**75,895,907**	749,487,667	66,533,060
Others	**1,004,720,921**	**953,463,806**	834,206,895	783,440,061
	62,579,954,726	**53,476,872,469**	48,342,651,158	40,237,216,916
Sales contract receivables	**1,150,301,593**	**53,812,556**	640,901,403	53,859,820
	P63,730,256,319	**P53,530,685,025**	P48,983,552,561	P40,291,076,736

As at December 31, 2017 and 2016, fair value of collateral held for loans and receivables amounted to P30.2 billion and P43.3 billion, respectively.

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2017 and 2016.

Collateral and Other Credit Enhancements
The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. Guidelines are implemented regarding the acceptability of types of collateral valuation and parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions: cash or securities;
- For commercial lending: mortgages over real properties, inventory and trade receivables and chattel mortgages; and
- For retail lending: mortgages over real properties and financed vehicles.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement, in the event that the value of the collateral depreciates due to various factors affecting the collateral.

It is the Bank's policy to dispose of repossessed properties in the most expeditious manner possible. Sale is facilitated by offering incentives to the Bank's accredited brokers and through formulating programs to attract buyers like offering fixed interest rates for an extended period of time and reduced rates for downpayment as compared to prevailing market rates as examples.

Borrower Risk Rating (BRR) Disclosure
In compliance with BSP, the Bank implemented in 2007 a credit risk classification that is compliant with global rating standards. The BRR is the evaluation of the credit worthiness of an existing or prospective borrower. The account is evaluated independent of any influence from any transactional factors. The BRR measures the company's credit quality by looking into three major aspects, namely, financial condition, industry analysis and management quality. Each section was given the following point allocation:

Section	Maximum Points	Section Rating
Financial Condition	240	40%
Industry Analysis	210	30%
Management Quality	150	30%
TOTAL:	**600**	**100%**

There are several rating factors per section which can earn points depending on the 4 quality judgment levels as follows:

Good	- 30 points
Satisfactory	- 20 points
Still Acceptable	- 10 points
Poor	- 0 point

If there is no available information for a specific factor, a rating of "Poor" will be given.

The BRR is used to determine the credit quality of the Bank's loan accounts. Loan accounts are classified according to a 1 - 10 rating scale based on BRR results, as follows:

	Final Score	Equivalent Risk Rating	Calculated BRR
High Grade	>177	Excellent	1
	150 - 176	Strong	2
	123 - 149	Good	3
Standard Grade	96 - 122	Satisfactory	4
	68 - 95	Acceptable	5
	<68	Watchlist	6
Substandard Grade		Special Mention	7
Impaired		Substandard	8
		Doubtful	9
		Loss	10

High Grade or accounts with BRR of 1-3 are loans where the risk of the Bank are good to excellent in terms of risk quality and where the likelihood of the non-payment of obligation is less likely to happen.

Excellent - BRR 1
These are loans with access to raise substantial amounts of funds through the public markets at any time, strong debt servicing capacity, conservative statements of financial position leverage vis-a-vis the industry in which the borrower operates, very good profit track record, timely payments, no history of payment delinquencies, high level of liquidity, strong operating trends and no likely existing or future disruptions.

Strong - BRR 2
These are loans with good access to public funds, strong market, strong overall debt servicing, cash flow which can very well cover debt services, usually with quality of multinational or well-capitalized local corporations, no history of payment delinquencies and with adequate liquidity.

Good - BRR 3
These are loans which cover smaller corporations with access to public markets or alternative financial markets, quite low probability of default, susceptible to cyclical changes and more concentration of business risk by product or market, profitable for the last 3 years, no history of payment default in the last 12 months, satisfactory payment record, unlikely to be affected by existing or future disruptions and competent under current business model.

Standard Grade or accounts with BRR of 4-6 are loans where the risk of the Bank ranges from satisfactory to acceptable with some form of weakness and where repayment capacity needs to be watched.

Satisfactory - BRR 4
These are loans where there are certain clear risk elements present, volatility of earnings and overall performance, normally have limited access to financial markets, can withstand normal business cycles but prolonged unfavorable economic period would affect/deteriorate performance, good matching of assets and cash flows, adequate debt servicing, reported profits in the fiscal year, with expectations of a profitable outcome in the current year, adequate to marginal liquidity, generally meeting obligations, likely to experience disruptions from external factors but the borrower has a great chance to overcome them and with recent departure of key employees or lack of key experience.

Acceptable - BRR 5
These are loans with sufficiently pronounced risk elements, still able to withstand normal business cycles, prolonged economic and financial crisis which can have an immediate effect on the company’s operations, sufficient cash flow in spite of an economic downturn, with extraordinary developments that can present higher risk, marginal liquidity, declining trend in profits but repayment is still within satisfactory level, and with turnovers or unfilled key management positions.

Watchlist - BRR 6
These are loans that are in current status but require monitoring as the account may experience potential problems due to declining operating performance, unfavorable industry condition or significant economic downturn and company-specific risk factors.

Except for program loans, start-up companies including those with less than 3 years of operations, politically exposed borrowers, borrowers getting out of core competency or those changing business models and accounts with documents still pending for submission shall also be classified as Watchlist.

Special Mention - BRR 7
Substandard Grade or accounts with BRR of 7 are loans observed to have potential weaknesses and require a closer observation than the accounts under the Standard rating since if weaknesses are uncorrected, repayment of the loan may be affected increasing the credit risk to the Bank.

Impaired accounts are loans classified by the Bank as Substandard, Doubtful and Loss where there are experiences of past due accounts and there are well-defined weaknesses where collection or liquidation of obligation may be or is already jeopardized.

Substandard - BRR 8
These are loans or portions thereof which involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There is a possibility of future loss to the Bank unless given closer supervision. These are also loans not necessarily past due but with well-defined weaknesses that jeopardize liquidation. Weaknesses include adverse trend or development of financial, managerial, economic or political nature or a significant weakening of the fair value of the collateral.

Doubtful - BRR 9
These are loans, not necessarily past due, which have weaknesses inherent to those classified as Substandard with added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

Loss - BRR 10
These are loans, not necessarily past due, which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

The BRR can be subject to an upgrade/downgrade on the basis of the following:

Group Affiliation:

1) When a borrower belongs to a group of companies, it can be upgraded up to the rating of the parent company provided that the parent company has a BRR of 4 or better.

2) However, if the BRR of the subsidiary is better than the parent, a downgrade can be considered especially if the parent has a BRR of 5 or worse.
3) If the parent has a BRR of 5 or lower and the subsidiary was also rated 5 or worse, it can retain its own rating.

4) If there are criteria such as the medium and long-term outlook, special risks that can grievously affect the company and outweigh the other criteria, a possible downgrade can be considered.

5) Companies with rapid expansion without a strong driving force or only on account of a single customer are also potential for downgrading.

Facility Risk Factor (FRF):

1) The FRF is an adjustment in the BRR that considers the transactional influence. It takes into account the quality of each facility. It is important to note that a Borrower can have only 1 BRR but several FRF for its multiple facilities. FRF evaluates the different security arrangements; the quantity and the quality of the collateral cover for each facility.

2) Collaterals are assessed at the net realizable value in a liquidation scenario. In evaluating the worthiness of the collateral, the quality of the documentation and the possible subordination of the Bank's claim should also be considered.

The adjustment on the BRR based on the FRF will be based on the following:

Upgrade	The facility is cash collateralized or covered by marketable securities
	Full collateralization of other assets
	3rd party guarantees in accordance with the BRR of the guarantor An upgrade should be set to the BRR of the guarantor
Downgrade	Borrower is a potential candidate for a downgrade if the facility is clean or a major part of the facilities are pledged to other creditors

Credit Quality Per Class of Financial Assets

The credit quality of financial assets is assessed and managed by the Bank using external and internal credit ratings.

The following table shows the credit quality of financial assets, net of unearned interest income (in thousands).

	December 31, 2017			
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Total**
Neither past due nor impaired	**P64,209,981**	**P35,206,358**	**P29,737,585**	**P129,153,924**
Past due but not impaired	**193,329**	**-**	**-**	**193,329**
Impaired	**3,419,454**	**-**	**306,925**	**3,726,379**
Gross	**67,822,764**	**35,206,358**	**30,044,510**	**133,073,632**
Less allowance for credit and impairment losses	**2,411,636**	**-**	**306,925**	**2,718,561**
Net	**P65,411,128**	**P35,206,358**	**P29,737,585**	**P130,355,071**

**Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA*
*** Comprised of Financial assets at FVPL, AFS securities, and HTM investments*

	December 31, 2016			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P49,631,351	P53,148,529	P23,419,291	P126,199,171
Past due but not impaired	134,853	-	-	134,853
Impaired	3,481,564	-	300,158	3,781,722
Gross	53,247,768	53,148,529	23,719,449	130,115,746
Less allowance for credit and impairment losses	2,457,526	-	300,158	2,757,684
Net	P50,790,242	P53,148,529	P23,419,291	P127,358,062

**Comprised of Due from BSP, Due from other banks and Interbank loans receivable and SPURA*
*** Comprised of Financial assets at FVPL, AFS securities, and HTM investments*

The table below shows the credit quality by class of assets for loans and receivables, excluding unquoted debt securities (gross of allowance for credit losses and unearned interest income) based on the Bank's internal credit rating (in thousands).

	December 31, 2017					
	Neither Past Due nor Individually Impaired					
	High Grade	**Standard Grade**	**Substandard**	**Unrated**	**Past Due or Impaired**	**Total**
Loans and receivables:						
Receivable from customers	**P25,555,003**	**P26,883,065**	**P259,438**	**P8,858,222**	**P2,466,080**	**P64,021,808**
Sales contract receivables	**-**	**-**	**-**	**1,035,915**	**168,199**	**1,204,114**
Accounts receivable	**-**	**-**	**-**	**297,624**	**518,493**	**816,117**
Accrued interest receivable	**-**	**-**	**-**	**638,558**	**168,434**	**806,992**
Returned checks and other check items (RCOCI)	**-**	**-**	**-**	**4,527**	**-**	**4,527**
	P25,555,003	**P26,883,065**	**P259,438**	**P10,834,846**	**P3,321,206**	**P66,853,558**

	December 31, 2016					
	Neither Past Due nor Individually Impaired					
	High Grade	Standard Grade	Substandard	Unrated	Past Due or Impaired	Total
Loans and receivables:						
Receivable from customers	P16,652,001	P23,626,089	P455,800	P6,617,205	P2,440,736	P49,791,831
Sales contract receivables	-	-	-	494,945	199,816	694,761
Accounts receivable	-	-	-	350,574	511,729	862,303
Accrued interest receivable	-	-	-	666,689	172,558	839,247
RCOCI	-	-	-	9,057	-	9,057
	P16,652,001	P23,626,089	P455,800	P8,138,470	P3,324,839	P52,197,199

Loans with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. The Bank renegotiates receivable from customers in financial difficulties to maximize collection opportunities and minimize the risk of default. Carrying amount per class of loans and receivables whose terms have been renegotiated follows:

	2017	2016
Term loans	**P1,093,953,286**	P1,179,473,257
Agri-Agra loans	**17,663,370**	17,663,370
Housing loans	**10,879,498**	12,747,747
	P1,122,496,154	P1,209,884,374

For financial assets such as amounts due from BSP and other banks, interbank loans receivable and SPURA, financial assets at FVPL, AFS securities, HTM investments, and unquoted debt securities classified as loans, the credit quality is assessed using external credit rating (such as Standard & Poors, Fitch, Moody's, etc.) of the respective counterparties considering relevant BSP mandates as follows:

	December 31, 2017		
	AA - A	**BBB and Below or Unrated**	**Total**
Loans and advances to banks:			
Due from BSP	**P25,704,211,852**	**P -**	**P25,704,211,852**
Due from other banks	**410,493,118**	**2,775,502,704**	**3,185,995,822**
Interbank loans receivable and SPURA	**6,316,149,870**	**-**	**6,316,149,870**
	32,430,854,840	**2,775,502,704**	**35,206,357,544**
Financial assets at FVPL:			
Government securities held for trading	**34,383,875**	**41,697,354**	**76,081,229**
Derivative assets*	**-**	**24,965,000**	**24,965,000**
Private debt securities held for trading	**-**	**-**	**-**
	34,383,875	**66,662,354**	**101,046,229**
AFS securities - gross:			
Quoted government securities	**13,758,293,520**	**2,329,768,408**	**16,088,061,928**
Quoted private debt securities	**881,950,553**	**-**	**881,950,553**
Quoted equity securities	**-**	**104,081,292**	**104,081,292**
Unquoted equity securities	**-**	**339,482,792**	**339,482,792**
	14,640,244,073	**2,773,332,492**	**17,413,576,565**
HTM investments:			
Quoted government securities	**6,026,012,842**	**3,512,386,150**	**9,538,398,992**
Quoted private debt securities	**2,991,488,213**	**-**	**2,991,488,213**
	9,017,501,055	**3,512,386,150**	**12,529,887,205**
Loans and receivables - gross:			
Unquoted debt securities	**1,259,933,889**	**226,942,931**	**1,486,876,820**
	1,259,933,889	**226,942,931**	**1,486,876,820**
	P57,382,917,732	**P9,354,826,631**	**P66,737,744,363**

** Unrated derivatives pertain to warrants*

	December 31, 2016		
	AA - A	BBB and Below or Unrated	Total
Loans and advances to banks:			
Due from BSP	P31,232,966,983	P -	P31,232,966,983
Due from other banks	268,973,198	3,570,492,868	3,839,466,066
Interbank loans receivable and SPURA	18,076,096,271	-	18,076,096,271
	49,578,036,452	3,570,492,868	53,148,529,320
Financial assets at FVPL:			
Government securities held for trading	31,222,276	37,124,173	68,346,449
Derivative assets*	-	24,860,000	24,860,000
Private debt securities held for trading	-	304,779	304,779
	31,222,276	62,288,952	93,511,228
AFS securities - gross:			
Quoted government securities	13,530,862,811	5,568,753,425	19,099,616,236
Quoted private debt securities	4,084,626,732	-	4,084,626,732
Quoted equity securities	-	106,605,293	106,605,293
Unquoted equity securities	-	335,089,789	335,089,789
	17,615,489,543	6,010,448,507	23,625,938,050
HTM investments:			
Quoted government securities	-	-	-
Quoted private debt securities	-	-	-
	-	-	-
Loans and receivables - gross:			
Unquoted debt securities	1,352,793,966	291,578,201	1,644,372,167
	1,352,793,966	291,578,201	1,644,372,167
	P68,577,542,237	P9,934,808,528	P78,512,350,765

** Unrated derivatives pertain to warrants*

Aging Analysis of Past Due but not Impaired

Past due loans and receivables include those that are only past due for a few days. An analysis of past due loans, by age, is provided below.

	December 31, 2017			
	1-30 Days	31-60 Days	61-90 Days	Total
Receivable from customers (gross):				
Housing loans	**P20,178,094**	**P40,526,079**	**P17,601,394**	**P78,305,567**
Auto loans	**33,014,085**	**18,657,934**	**12,612,855**	**64,284,874**
Term loans	**472,587**	**-**	**-**	**472,587**
Others	**9,498,265**	**3,225,461**	**1,569,187**	**14,292,913**
Sales contract receivables	**26,109,076**	**3,213,696**	**6,650,257**	**35,973,029**
	P89,272,107	**P65,623,170**	**P38,433,693**	**P193,328,970**

	December 31, 2016			
	1-30 Days	31-60 Days	61-90 Days	Total
Receivable from customers (gross):				
Housing loans	P15,205,602	P12,691,292	P3,664,570	P31,561,464
Auto loans	22,600,503	14,505,552	9,737,225	46,843,280
Term loans	20,941,861	-	650,149	21,592,010
Others	3,106,957	335,523	238,150	3,680,630
Sales contract receivables	23,899,377	3,963,659	3,312,792	31,175,828
	P85,754,300	P31,496,026	P17,602,886	P134,853,212

Impairment Assessment

The main consideration for the loan impairment assessment is an objective evidence of occurrence of events that would have an impact on the estimated future cash flows of the asset. This includes whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in 2 areas: individually assessed allowances and collectively assessed allowances.

BSP Regulatory Reporting - Credit Risk

The Bank calculates its credit risk-weighted assets using the standardized approach, the simplest of the 3 broad approaches to credit risk. This approach allows the Bank to utilize a wider differentiation of risk weights and a wider recognition of risk mitigation techniques without taking in excessive complexity in the process.

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

	Standardized Credit Risk Weights							
Credit Assessment	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB-**	**B+ to B-**	**Below B-**	**Unrated**
Sovereigns	**0%**	**0%**	**20%**	**50%**	**100%**	**100%**	**150%**	**100%**
Multilateral Development Banks (MDBs)	**0%**	**20%**	**50%**	**50%**	**100%**	**100%**	**150%**	**100%**
Banks other than MDBs	**20%**	**20%**	**50%**	**50%**	**100%**	**100%**	**150%**	**100%**
Interbank Call Loans				**20%**				
Local Government Units	**20%**	**20%**	**50%**	**50%**	**100%**	**100%**	**150%**	**100%**
Government Corporations (GCs)	**20%**	**20%**	**50%**	**100%**	**100%**	**150%**	**150%**	**100%**
Corporations other than GCs	**20%**	**20%**	**50%**	**100%**	**100%**	**150%**	**150%**	**100%**
Housing Loans				**50%**				
Micro, Small and Medium Enterprise qualified portfolio				**75%**				
Defaulted Exposures								
Housing Loans				**100%**				
Others				**150%**				
Real and Other Properties Acquired				**150%**				
All other assets				**100%**				

Credit risk-weighted assets as at December 31, 2017 and 2016 as reported to BSP follows (amounts in thousands):

	2017	2016
Risk-weighted on-balance sheet assets	**P76,989,108**	P62,859,689
Risk-weighted off-balance sheet assets	**3,162,430**	2,145,819
Counterparty risk-weighted assets in the trading book	**12,545**	12,492
	P80,164,083	P65,018,000

The Bank's credit risk-weighted exposures arising from on-balance sheet assets amounting to P77.0 billion contribute 96.0% of the credit exposures of the Bank. Credit risk-weighted off-balance sheet assets and counterparty risk-weighted assets in the trading book make up the remainder. The off-balance sheet assets, consisting of direct credit substitutes, e.g. guarantees and financial standby letter of credit, and transaction and trade-related contingencies, are weighted at 100%, 50% and 20%, respectively.

The Bank's credit exposures are risk-weighted based on third party credit assessment of the individual exposure as obtained from third party credit assessment institutions recognized by BSP. In the calculation of risk weighted assets in both the banking and trading books, the Bank utilizes the disclosed ratings from Standard & Poors, Moody's, Fitch Ratings, and Philratings, whenever available. In cases where there are 2 or more ratings which correspond into different risk weights, the higher of the 2 lowest risk weights is used. For peso denominated exposures to the Philippine National Government and BSP, the risk weight shall be 0.0%.

The breakdown of risk-weighted on-balance sheet assets follows (amounts in thousands):

	December 31, 2017								
				Risk Weights					
	Exposures, Net of Specific Provisions	**Exposures Covered by Credit Risk Mitigation (CRM), Gross of Materiality Threshold**	**Exposures not Covered by CRM**	**0%**	**20%**	**50%**	**100%**	**150%**	**Total**
Cash on hand	**P1,384,982**	**P -**	**P1,384,982**	**P1,384,982**	**P -**	**P -**	**P -**	**P -**	**P1,384,982**
COCI	-	-	-	-	-	-	-	-	-
Due from BSP	**25,706,545**	-	**25,706,545**	**25,706,545**	-	-	-	-	**25,706,545**
Due from other banks	**5,265,081**	-	**5,265,081**	-	**307,145**	**4,769,846**	**188,090**	-	**5,265,081**
AFS securities	**17,114,379**	-	**17,114,379**	**13,839,017**	**892,420**	**2,382,942**	-	-	**17,114,379**
HTM investments	**12,676,740**	-	**12,676,740**	**6,119,695**	**3,011,878**	**3,545,167**	-	-	**12,676,740**
Loans and receivables	**62,759,660**	**1,393,315**	**61,366,345**		**106,862**	**1,263,799**	**59,871,272**	**124,412**	**61,366,345**
Loans and receivables arising from repurchase agreements	**4,131,137**	-	**4,131,137**	**4,131,137**	-	-	-	-	**4,131,137**
Sales contract receivables	**1,159,921**	-	**1,159,921**	-	-	-	**1,040,582**	**119,339**	**1,159,921**
Real and other properties acquired (ROPA)	**2,542,022**	-	**2,542,022**	-	-	-	-	**2,542,022**	**2,542,022**
Total exposures, excluding other assets	**132,740,467**	**1,393,315**	**131,347,152**	**51,181,376**	**4,318,305**	**11,961,754**	**61,099,944**	**2,785,773**	**131,347,152**
Other assets	**4,865,966**	-	**4,865,966**	-	-	-	**4,865,966**	-	**4,865,966**
Total exposures, including other assets	**P137,606,433**	**P1,393,315**	**P136,213,118**	**P51,181,376**	**P4,318,305**	**P11,961,754**	**P65,965,910**	**P2,785,773**	**P136,213,118**
Total risk-weighted on-balance sheet assets not covered by CRM					**P863,661**	**P5,980,877**	**P65,965,910**	**P4,178,660**	**P76,989,108**
Total risk-weighted on-balance sheet assets covered by CRM					-	-	-	-	-
Total risk-weighted on-balance sheet assets					**P863,661**	**P5,980,877**	**P65,965,910**	**P4,178,660**	**P76,989,108**

	December 31, 2016								
	Exposures, Net of Specific Provisions	Exposures Covered by Credit Risk Mitigation (CRM), Gross of Materiality Threshold	Exposures not Covered by CRM	Risk Weights 0%	20%	50%	100%	150%	Total
Cash on hand	P1,618,103	P -	P1,618,103	P1,618,103	P -	P -	P -	P -	P1,618,103
COCI	17,462	-	17,462	-	17,462	-	-	-	17,462
Due from BSP	31,243,694	-	31,243,694	31,243,694	-	-	-	-	31,243,694
Due from other banks	8,003,516	-	8,003,516	-	343,382	7,447,180	212,954	-	8,003,516
AFS securities	4,117,359	-	4,117,359	-	4,117,359	-	-	-	4,117,359
HTM investments	-	-	-	-	-	-	-	-	-
Loans and receivables	48,529,343	660,870	47,868,473	-	105,891	1,067,802	46,583,388	111,392	47,868,473
Loans and receivables arising from repurchase agreements	13,808,759	-	13,808,759	13,808,759	-	-	-	-	13,808,759
Sales contract receivables	653,026	-	653,026	-	-	-	500,761	152,265	653,026
ROPA	2,742,634	-	2,742,634	-	-	-	-	2,742,634	2,742,634
Total exposures, excluding other assets	110,733,896	660,870	110,073,026	46,670,556	4,584,094	8,514,982	47,297,103	3,006,291	110,073,026
Other assets	5,878,840	-	5,878,840	-	-	-	5,878,840	-	5,878,840
Total exposures, including other assets	P116,612,736	P660,870	P115,951,866	P46,670,556	P4,584,094	P8,514,982	P53,175,943	P3,006,291	P115,951,866
Total risk-weighted on-balance sheet assets not covered by CRM					P916,819	P4,257,491	P53,175,943	P4,509,437	P62,859,689
Total risk-weighted on-balance sheet assets covered by CRM					-	-	-	-	-
Total risk-weighted on-balance sheet assets					P916,819	P4,257,491	P53,175,943	P4,509,437	P62,859,689

The Bank uses credit risk mitigation techniques in order to obtain capital relief as allowed by regulations. With regard to the Bank's on-balance sheet assets, a few receivables from government corporations and from private corporations are covered by eligible mitigants. In these cases, the documentation used in collateralized transactions and in guarantees has been reviewed to be legally enforceable in all relevant jurisdictions.

The breakdown of risk-weighted on-balance sheet assets covered by CRM follows (amounts in thousands):

	December 31, 2017					
	Guaranteed Portion	**Total Exposures Covered by CRM**	**Risk Weights 0%**	**20%**	**Total**	**Total exposures Covered by CRM, Gross of Materiality Threshold**
Loans and Receivables						
Private corporations	**P1,043,905**	**P1,043,905**	**P1,043,905**	**P -**	**P1,043,905**	**P1,043,905**
Loans to individuals for consumption and other purposes	**349,410**	**349,410**	**349,410**	**-**	**349,410**	**349,410**
Total exposures covered by CRM	**P1,393,315**	**P1,393,315**	**P1,393,315**	**P -**	**P1,393,315**	**P1,393,315**
Risk-weighted on-balance sheet assets covered by CRM				**P -**	**P -**	

	December 31, 2016					
	Guaranteed Portion	Total Exposures Covered by CRM	Risk Weights 0%	20%	Total	Total exposures Covered by CRM, Gross of Materiality Threshold
Loans and Receivables						
Private corporations	P342,626	P342,626	P342,626	P -	P342,626	P342,626
Loans to individuals for consumption and other purposes	318,244	318,244	318,244	-	318,244	318,244
Total exposures covered by CRM	P660,870	P660,870	P660,870	P -	P660,870	P660,870
Risk-weighted on-balance sheet assets covered by CRM				P -	P -	

Liquidity Risk and Funding Management

Liquidity risk is the risk to the Bank's earnings and capital arising from its inability to meet funding requirements in a timely manner. To measure and monitor this risk, the Bank has a report on future cash flows and liquidity on a daily basis. To ensure sufficient liquidity, the Bank has a set of internal limits incorporated in its annual budget that allocates a portion of its liabilities into cash, investment securities and other liquid assets.

The Bank has available credit lines from various counterparties that it can utilize to meet sudden liquidity demands. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating both to the market in general and to events specific to the Bank. A contingency funding plan, which covers quantitative and procedural measures, is in place and may be applied under different stress scenarios. The Bank also manages its liquidity position through the monitoring of a Maximum Cumulative Outflow against a Board-approved limit. This process measures and estimates projected funding requirements that the Bank will need at specific time horizons.

There has been no material change to the Bank's exposure to liquidity and funding management risk or the manner in which it manages and measures the risk since prior financial year.

Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2017 and 2016 based on contractual undiscounted repayment obligations (in thousands).

	December 31, 2017					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**
Deposit liabilities:						
Demand	**P26,863,177**	**P -**	**P -**	**P -**	**P -**	**P26,863,177**
Savings	**20,899,444**	**52,119,184**	**1,950,044**	**-**	**-**	**74,968,672**
Time	**20,087**	**12,292,028**	**3,669,379**	**1,161,775**	**-**	**17,143,269**
Bills payable	**-**	**7**	**39**	**302**	**-**	**348**
Manager's checks	**-**	**560,296**	**-**	**-**	**-**	**560,296**
Accrued interest and other expenses*	**-**	**526,612**	**-**	**-**	**-**	**526,612**
Other liabilities**	**-**	**-**	**1,912,576**	**266,379**	**-**	**2,178,955**
Total undiscounted financial liabilities	**P47,782,708**	**P65,498,127**	**P7,532,038**	**P1,428,456**	**P -**	**P122,241,329**

**amounts exclude accrued employee and other benefits, accrued taxes payable and accrued lease liability*
***amounts exclude withholding tax payable and retirement liability*

	December 31, 2016					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Deposit liabilities:						
Demand	P24,422,978	P -	P -	P -	P -	P24,422,978
Savings	18,882,591	45,044,494	4,882,819	-	-	68,809,904
Time	38,639	20,780,471	2,297,189	1,449,436	-	24,565,735
Bills payable	-	12	37	600	-	649
Manager's checks	-	716,060	-	-	-	716,060
Accrued interest and other expenses*	-	509,007	-	-	-	509,007
Other liabilities**	-	-	1,825,636	263,575	-	2,089,211
Total undiscounted financial liabilities	P43,344,208	P67,050,044	P9,005,681	P1,713,611	P -	P121,113,544

**amounts exclude accrued employee and other benefits, accrued taxes payable and accrued lease liability*
***amounts exclude withholding tax payable and retirement liability*

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments (in thousands):

	December 31, 2017				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Commitments	**P1,316,628**	**P1,060,623**	**P2,032,924**	**P1,121,827**	**P5,532,002**
Contingent liabilities	**23,007,979**	**1,115,026**	**26,527**	**2,724,103**	**26,873,635**
	P24,324,607	**P2,175,649**	**P2,059,451**	**P3,845,930**	**P32,405,637**

	December 31, 2016				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Commitments	P933,431	P186,390	P1,872,047	P2,840,280	P5,832,148
Contingent liabilities	20,966,104	811,866	1,576,838	2,000,035	25,354,843
	P21,899,535	P998,256	P3,448,885	P4,840,315	P31,186,991

Market Risk

Market risk is the potential loss that may arise from decrease in earnings and value of holdings due to the decline in prices or present value of future cash flows of financial instruments. The value of these financial instruments may change as a result of changes in interest rates, foreign exchange rates, equity prices and other market changes. The Bank's market risk originates from its inventory of foreign exchange, debt and equity securities and freestanding derivatives.

There has been no material change to the Bank's exposure to market risk or the manner in which it manages and measures the risk since prior financial year.

BSP Regulatory Reporting - Market Risk

Market risk-weighted assets by type of exposure as at December 31, 2017 and 2016 as reported to BSP follows (amounts in thousands):

	2017	2016
Foreign exposures	**P216,549**	P265,108
Interest rate exposures	**49,326**	7,065,327
	P265,875	P7,330,435

Interest Rate Risk

One of the Bank's primary business functions is providing financial products that meet the needs of its customers. To satisfy their needs, loans and deposits are tailored to the customers' requirements. The difference between the yield earned on assets, such as loans, and the rate paid on the liabilities (including customer deposits or other borrowings) used to fund them gives the Bank its Net Interest Income (NII).

NII in the current period is the result of customer transactions and the related contractual rates which originated in prior periods as well as new transactions in the current period; those prior period transactions will be impacted by changes in rates on floating rate assets and liabilities in the current period.

The Bank's financial performance is subject to some degree of risk due to changes in interest rates. In order to manage these risks effectively, the Bank modified the pricing on new customer loans subject to the BRR policy. The BRR is the evaluation of the creditworthiness of an existing or prospective borrower. The account is evaluated independent of any influence from any transactional factors. BRR for asset size of P15.0 million and above measures the customers' credit quality by looking into 3 major aspects, namely: financial condition, industry analysis and management quality. BRR for asset size of below P15.0 million measures the customers' credit quality using the cash, relationship, administration, market, production and security analyses.

The Bank also measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of asset-liability gap analysis on a monthly basis. This analysis focuses on the repricing profile of its rate sensitive assets and liabilities, and its influence on the Bank's accrual earnings. The interest rate repricing gap report assigns all assets and liabilities into various time buckets according to the remaining days to maturity for fixed-rate items, remaining days to next re-pricing for floating-rate items, or based on behavioral assumptions if more applicable. Loans, investments and deposits are entered in the time band according to its contracted maturity if fixed rate or to its next re-pricing date if floating. Moreover, the Bank assumes no prepayment on the loans. Cash and non-maturity deposits, on the other hand, are considered non-rate sensitive.

The difference between the total of the repricing (interest rate-sensitive) assets and repricing (interest rate-sensitive) liabilities gives an indication of the Bank's repricing risk exposure. A positive gap means more assets mature or have to be repriced than liabilities. In this case, the Bank is said to be "asset sensitive" in that time bucket and it benefits from an increase of interest rates as the assets will be repriced faster than liabilities.

A bank with a negative gap is considered "liability sensitive" since it has more liabilities to be repriced during such period than assets. It is negatively affected by a hike in interest rates. An example would be a bank that uses short-term deposits to fund long-term loans at fixed rates. It may encounter a decline in its net interest income if the interest rates increase since the cost of funds (the deposit rates) will increase while the earnings from loans remain fixed.

RSK regularly monitors the mismatches in the repricing of its asset and liabilities through the interest rate gap reports to ALCO and BROC. To ensure that the Bank's net interest income is protected, the Bank has a set limit for the maximum repricing gap, either positive or negative, for tenors up to 1 year. These limits are reviewed annually and form part of the Bank's risk appetite statements.

The table sets forth the Bank's interest rate repricing gap as at December 31, 2017 and 2016.

	December 31, 2017								
In Millions	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 -3 Years	3-5 Years	Beyond 5 Years	Non-rate Sensitive	Total
RESOURCES									
Cash and COCI	P -	P -	P -	P -	P -	P -	P -	P1,385	P1,385
Due from BSP	1,500	-	-	-	-	-	-	24,204	25,704
Due from other banks	-	-	-	-	-	-	-	5,265	5,265
Interbank loans receivable	4,237	-	-	-	-	-	-	-	4,237
Financial assets at FVPL	-	-	-	-	-	-	-	101	101
AFS securities - net	976	2,411	4,736	3,588	5,149	-	345	(236)	16,969
HTM investments	-	-	332	-	2,379	956	8,919	(21)	12,565
Other investments - net	-	-	-	-	-	-	727	38	765
Loans - net	21,916	6,874	6,009	3,550	3,628	10,425	7,595	1,659	61,656
Other resources	543	457	3	31	1	-	-	8,818	9,853
	P29,172	P9,742	P11,080	P7,169	P11,157	P11,381	P17,586	P41,213	P138,500
LIABILITIES AND EQUITY									
Deposit liabilities	P49,295	P15,066	P4,210	P1,373	P943	P121	P -	P47,760	P118,768
Demand deposits	-	-	-	-	-	-	-	26,863	26,863
Savings deposits	-	-	-	-	-	-	-	20,897	20,897
Time deposits	49,295	15,066	4,210	1,373	943	121	-	-	71,008
Other liabilities	-	-	-	-	-	-	-	3,985	3,985
	49,295	15,066	4,210	1,373	943	121	-	51,745	122,753
Capital funds	-	-	-	-	-	-	-	15,747	15,747
	P49,295	P15,066	P4,210	P1,373	P943	P121	P -	P67,492	P138,500
Total periodic gap	(P20,123)	(P5,324)	P6,870	P5,796	P10,214	P11,260	P17,586	(P26,279)	P -

In Millions	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 -3 Years	3-5 Years	Beyond 5 Years	Non-rate Sensitive	Total
	December 31, 2016								
RESOURCES									
Cash and COCI	P -	P -	P -	P -	P -	P -	P -	P1,636	P1,636
Due from BSP	10,000	-	-	-	-	-	-	21,233	31,233
Due from other banks	-	-	-	-	-	-	-	8,004	8,004
Interbank loans receivable	13,912	-	-	-	-	-	-	-	13,912
Financial assets at FVPL	-	-	-	-	-	-	-	94	94
AFS securities - net	1,091	2,472	4,784	9,329	2,252	1,007	2,774	(528)	23,181
HTM investments	-	-	-	-	-	-	-	-	-
Other investments - net	-	-	-	-	-	-	773	35	808
Loans - net	9,536	15,844	793	2,619	1,997	7,710	7,832	1,356	47,687
Other resources	429	59	6	-	1	-	-	9,793	10,288
	P34,968	P18,375	P5,583	P11,948	P4,250	P8,717	P11,379	P41,623	P136,843
LIABILITIES AND EQUITY									
Deposit liabilities	P40,964	P24,704	P3,005	P4,107	P260	P1,042	P -	P43,414	P117,496
Demand deposits	-	-	-	-	-	-	-	24,423	24,423
Savings deposits	-	-	-	-	-	-	-	18,991	18,991
Time deposits	40,964	24,704	3,005	4,107	260	1,042	-	-	74,082
Other liabilities	-	-	-	-	-	-	-	3,982	3,982
	40,964	24,704	3,005	4,107	260	1,042	-	47,396	121,478
Capital funds	-	-	-	-	-	-	-	15,365	15,365
	P40,964	P24,704	P3,005	P4,107	P260	P1,042	P -	P62,761	P136,843
Total periodic gap	(P5,996)	(P6,329)	P2,578	P7,841	P3,990	P7,675	P11,379	(P21,138)	P -

The Bank manages interest rate risk separately for its RBU and FCDU books. The interest rate risk of the RBU of the Bank from its accounts is managed in PHP while the FCDU of the Bank, regardless of original currency is managed in USD. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's results of operations and OCI:

Currency	Changes in Interest Rates (In Basis Points)	Sensitivity Of Net Interest Income (In Millions)	Sensitivity Of Trading Gains - net on FA at FVPL (In Millions)	Sensitivity Of OCI (In Millions)
	December 31, 2017			
PHP	**+200**	**(P958.99)**	**(P0.14)**	**(P776.37)**
USD	**+100**	**(0.42)**	**(5.43)**	**(184.40)**
PHP	**-200**	**958.99**	**0.14**	**776.37**
USD	**-100**	**0.42**	**5.43**	**184.40**

Currency	Changes in Interest Rates (In Basis Points)	Sensitivity Of Net Interest Income (In Millions)	Sensitivity Of Trading Gains - net on FA at FVPL (In Millions)	Sensitivity Of OCI (In Millions)
	December 31, 2016			
PHP	+200	(P854.02)	(P0.27)	(P1,017.49)
USD	+100	(0.27)	(2.91)	(426.13)
PHP	-200	854.02	0.27	1,017.49
USD	-100	0.27	2.91	426.13

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for 1 year based on the floating rate of financial assets and financial liabilities held as at December 31, 2017 and 2016. The sensitivity of "Trading and investment securities gains - net" and OCI is calculated by revaluing fixed-rate financial assets at FVPL and AFS debt securities, respectively as at December 31, 2017 and 2016. The total sensitivity of OCI is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

Equity Price Risk
Given the nature and amount of the Bank's equity investments portfolio in 2017 and 2016, management believes the Bank's exposure to equity price risk is considered minimal.

Currency Risk
The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Bank believes that its profile of foreign currency exposure based on its assets and liabilities is within conservative limits for a financial institution engaged in a type of business similar to that of the Bank.

Foreign currency deposits are generally used to fund the foreign currency-denominated loan and investment portfolios in the FCDU. Banks are required by BSP to match the foreign currency liabilities held in the FCDU with foreign currency assets. In addition, BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held in the FCDU.

The Bank employs risk limits and analytical models to manage the risk that possible interest or currency movements pose. Such limits are prudently set and the position status is monitored on a daily basis.

The table below summarizes the Bank's exposure to foreign exchange risk as at December 31, 2017 and 2016. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency (based on USD equivalents in thousands):

	December 31, 2017			
	USD	**Euro**	**Others**	**Total**
Assets				
Due from other banks	**$800**	**$525**	**$1,008**	**$2,333**
Interbank loans receivable	**3,650**	**-**	**-**	**3,650**
Loans and receivables	**770**	**-**	**-**	**770**
Total assets	**5,220**	**525**	**1,008**	**6,753**
Liabilities				
Deposit liabilities	**-**	**590**	**-**	**590**
Other liabilities	**146**	**3**	**10**	**159**
Total liabilities	**146**	**593**	**10**	**749**
Net Exposure	**$5,074**	**($68)**	**$998**	**$6,004**
Amount in PHP	**P253,345**	**(P3,395)**	**P49,830**	**P299,780**

	December 31, 2016			
	USD	Euro	Others	Total
Assets				
Due from other banks	$779	$2,787	$858	$4,424
Interbank loans receivable	5,200	-	-	5,200
Loans and receivables	1,122	-	-	1,122
Total assets	7,101	2,787	858	10,746
Liabilities				
Deposit liabilities	-	3,290	-	3,290
Other liabilities	91	64	4	159
Total liabilities	91	3,354	4	3,449
Net Exposure	$7,010	($567)	$854	$7,297
Amount in PHP	P348,537	(P28,191)	P42,461	P362,807

The table below indicates the currencies which the Bank has significant exposure to as at December 31, 2017 and 2016 based on its foreign currency-denominated assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of other currency rates against the PHP, with all other variables held constant on the results of operations (due to the fair value of currency sensitive monetary assets and liabilities) and OCI. A negative amount in the table reflects a potential net reduction of net income or OCI while positive amount reflects a net potential increase. Change in currency rates are based on the historical movements of each currency for the same period:

	Philippine Peso Appreciates by	**Effect on Profit before Tax** (In Millions)	**Philippine Peso Depreciates by**	**Effect on Profit before Tax** (In Millions)
December 31, 2017				
Currency				
USD	**P1.00**	**(P5.07)**	**(P1.00)**	**P5.07**
Euro	**0.50**	**0.03**	**(0.50)**	**(0.03)**
Others	**0.40**	**(0.40)**	**(0.40)**	**0.40**
December 31, 2016				
Currency				
USD	P1.00	(P7.01)	(P1.00)	P7.01
Euro	0.50	0.28	(0.50)	(0.28)
Others	0.40	(0.34)	(0.40)	0.34

Given the nature and amount of the Bank's equity investments portfolio in 2017 and 2016, management believes the Bank's exposure to currency risk is considered minimal.

6. Categories and Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair values of financial and non-financial assets and liabilities are as follows:

COCI, Due from BSP and Other Banks and Interbank Loans Receivable and SPURA - Fair values approximate carrying amounts given the short-term nature of the instruments.

Quoted Debt Securities (Financial Assets at FVPL, AFS Securities, and HTM Investments) - Fair values are based on quoted market prices.

Quoted Equity Securities - Fair values are determined based on market prices quoted in an established exchange, or on published quotes by accredited brokers.

Derivative Instruments - Fair values are determined based on published quotes or price valuations provided by counterparties or calculations using market-accepted valuation techniques.

Loans and Receivables – The estimated fair value of long-term receivables from customers and sales contract receivables are equivalent to the estimated future cash flows expected to be received which are discounted using current market rates (i.e. PDST and Libor). Fair value of short-term receivable from customers, sales contract receivables, accounts receivables, accrued interest receivables and RCOCI approximates carrying amounts given the short-term nature of the accounts.

Property and Equipment and Investment Properties - Fair value is determined using market data approach. The valuations performed by the appraisers are based on recent sales or market prices of similar properties in the same areas the properties are located, quoted from other appraisers and real estate brokers, and adjusted for any difference in the nature, location or condition of the specific property.

Inputs considered in determining fair values include the following:

Location	Location of comparable properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Corner influence	Bounded by 2 roads
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Time Element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perception of the market over time, in which case, the current data is superior to historic data.

Deposit Liabilities - Fair values of time deposits are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current market rate (i.e. PDST and Libor) and with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Bills Payable - Fair values are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current market rate and with maturities consistent with those remaining for the liability being valued.

Manager's Checks, Accrued Interest and Other Expenses and Other Liabilities (excluding non-financial liabilities) - Carrying amounts approximate fair values due to the short-term nature of the accounts.

<u>Fair Value Hierarchy</u>
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 - inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognized in the financial statements on a recurring basis, such as financial assets at FVPL, the Bank 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 reporting period.

The following table provides the fair value hierarchy of the Bank's assets and liabilities measured at fair value and those for which fair values should be disclosed (in thousands):

	December 31, 2017				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL:					
Government securities held for trading	**P76,081**	**P76,081**	**P -**	**P -**	**P76,081**
Derivative assets	**24,965**	**-**	**24,965**	**-**	**24,965**
Private debt securities held for trading	**-**	**-**	**-**	**-**	**-**
AFS securities:					
Quoted government securities	**16,088,062**	**16,088,062**	**-**	**-**	**16,088,062**
Quoted private debt securities	**881,951**	**881,951**	**-**	**-**	**881,951**
Quoted equity securities	**97,916**	**-**	**97,916**	**-**	**97,916**
	17,168,975	**17,046,094**	**122,881**	**-**	**17,168,975**
Non-financial Assets					
Property and equipment*	**811,716**	**-**	**811,716**	**-**	**811,716**
Investment properties	**5,801,662**	**-**	**5,801,662**	**-**	**5,801,662**
	P23,782,353	**P17,046,094**	**P6,736,259**	**P -**	**P23,782,353**
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments:					
Quoted government securities	**P9,538,399**	**P9,378,265**	**P -**	**P -**	**P9,378,265**
Quoted private debt securities	**2,991,488**	**2,966,885**	**-**	**-**	**2,966,885**
Loans and receivables:					
Receivable from customers	**62,629,449**	**-**	**64,363,899**	**-**	**64,363,899**
Less unearned interest	**49,494**	**-**	**49,494**	**-**	**49,494**
	62,579,955	**-**	**64,314,405**	**-**	**64,314,405**
Sales contract receivables	**1,204,114**	**-**	**1,230,260**	**-**	**1,230,260**
	P76,313,956	**P12,345,150**	**P65,544,665**	**P -**	**P77,889,815**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Time deposit liabilities	**P17,008,912**	**P -**	**P15,696,470**	**P -**	**P15,696,470**
Bills payable	**267**	**-**	**300**	**-**	**300**
	P17,009,179	**P -**	**P15,696,770**	**P -**	**P15,696,770**

**Land and building*

	December 31, 2016				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL:					
Government securities held for trading	P68,346	P68,346	P -	P -	P68,346
Derivative assets	24,860	-	24,860	-	24,860
Private debt securities held for trading	305	305	-	-	305
AFS securities:					
Quoted government securities	19,099,616	19,099,616	-	-	19,099,616
Quoted private debt securities	4,084,627	4,084,627	-	-	4,084,627
Quoted equity securities	106,605	-	106,605	-	106,605
	23,384,359	23,252,894	131,465	-	23,384,359
Non-financial Assets					
Property and equipment*	840,453	-	840,453	-	840,453
Investment properties	6,213,588	-	6,213,588	-	6,213,588
	P30,438,400	P23,252,894	P7,185,506	P -	P30,438,400
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments:					
Quoted government securities	P -	P -	P -	P -	P -
Quoted private debt securities	-	-	-	-	-
Loans and receivables:					
Receivable from customers	48,356,797	-	49,818,548	-	49,818,548
Less unearned interest	14,146	-	14,146	-	14,146
	48,342,651	-	49,804,402	-	49,804,402
Sales contract receivables	640,901	-	774,538	-	774,538
	P48,983,552	P -	P50,578,940	P -	P50,578,940
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Time deposit liabilities	P24,363,391	P -	P22,882,806	P -	P22,882,806
Bills payable	484	-	558	-	558
	P24,363,875	P -	P22,883,364	P -	P22,883,364

**Land and building*

For 2017 and 2016, there have been no transfers into and out of each of the levels of the fair value hierarchy.

As at December 31, 2017 and 2016, the carrying values of the Bank's financial assets and financial liabilities, not included in the table above, as reflected in the statements of financial position and related notes approximate their respective fair values.

Fair value information has not been disclosed for the Bank's unquoted equity and debt securities included under "AFS securities" and "Loans and receivables", respectively, that are carried at cost because fair value cannot be measured reliably. The equity securities represent ordinary shares from a foreign financial institution and a telecommunications company that are not quoted on any market. The debt securities represent investments in a transportation company acquired by the Bank through a special purpose vehicle. The Bank does not intend to dispose of these investments in the foreseeable future.

7. Interbank Loans Receivable and Securities Purchased under Resale Agreement

This account consists of:

	2017	2016
SPURA	**P4,130,362,361**	P13,806,170,420
Interbank loans receivable	**2,185,787,509**	4,269,925,851
	P6,316,149,870	P18,076,096,271

Interest income on interbank loans receivable and SPURA follows:

	2017	2016
SPURA	**P220,005,172**	P173,221,178
Interbank loans receivable	**10,652,725**	17,355,926
	P230,657,897	P190,577,104

Peso-denominated interbank loans receivable bear interest rates ranging from 2.5% to 3.2% in 2017 and from 2.5% to 2.6% in 2016. Dollar-denominated interbank loans receivable bear interest rates ranging from 0.2% to 1.5% in 2017 and from 0.2% to 1.0% in 2016.

SPURA bears interest rate of 3.0% in 2017 and interest rates ranging from 3.0% to 4.0% in 2016.

8. Financial Assets at Fair Value through Profit or Loss

Financial assets at FVPL consist of:

	2017	2016
Government securities held for trading	**P76,081,229**	P68,346,449
Derivative assets	**24,965,000**	24,860,000
Private debt securities held for trading	**-**	304,779
	P101,046,229	P93,511,228

As at December 31, 2017 and 2016, financial assets and liabilities through FVPL are adjusted for unrealized loss of P0.8 million and unrealized gain of P86.9 million, respectively (see Note 27).

As at December 31, 2017 and 2016, there are no outstanding embedded derivatives.

Derivative Financial Instruments

This includes warrants amounting to $50 thousand acquired by the Bank in June 2008. The warrants give the Bank the option or right to exchange its holding of certain Republic of the Philippines Global Bonds into peso-denominated GS upon occurrence of a predetermined credit event. The warrants will mature in November 2032.

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amount and leverage exposure. The leverage exposure is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The leverage exposure indicates the volume of transactions outstanding as at December 31, 2017 and 2016 and is not indicative of either market risk or credit risk.

	December 31, 2017			December 31, 2016		
	Derivative Assets	**Notional Amount**	**Leverage Exposure**	Derivative Assets	Notional Amount	Leverage Exposure
Freestanding derivatives:						
Warrants	**P24,965,000**	**$50,000**	**$ -**	P24,860,000	$50,000	$ -

9. Available-for-Sale Securities

This account consists of:

	Note	2017	2016
Quoted AFS Securities			
Government securities	*10, 16, 33*	**P16,088,061,928**	P19,099,616,236
Private debt securities	*10*	**881,950,553**	4,084,626,732
Equity securities, net of allowance for impairment losses of P6.2 million and nil as at December 31, 2017 and 2016, respectively	*17*	**97,916,000**	106,605,293
		17,067,928,481	23,290,848,261
Unquoted AFS Securities			
Equity securities, net of allowance for impairment losses of P300.8 million and P300.2 million as at December 31, 2017 and 2016, respectively	*17*	**38,722,691**	34,931,728
		P17,106,651,172	P23,325,779,989

Unquoted AFS Securities

Unquoted AFS securities include the Bank's 8.57% equity interest in Banco National de Guinea Equatorial (BANGE) as part of its partnership with the National Government of the Republic of Equatorial Guinea. Dividend income received from BANGE in 2017 and 2016 amounted to P8.9 million and P4.5 million, respectively (see Note 34).

Net Unrealized Losses on AFS Securities

The movements of net unrealized losses on AFS securities follow:

	Note	2017	2016
Balance at beginning of year		**(P566,622,743)**	(P386,556,197)
Net unrealized (loss) gain recognized as OCI		**(29,788,470)**	172,618,932
Realized gains taken to profit or loss	*27*	**(37,554,250)**	(352,685,478)
Balance at end of year	*10, 11*	**(P633,965,463)**	(P566,622,743)

10. Held-to-Maturity Investments

This account consists of:

	Note	2017	2016
Government securities	*9*	**P9,538,398,992**	P -
Private debt securities	*9*	**2,991,488,213**	-
		P12,529,887,205	P -

Reclassification of Investment Securities

The Bank transferred certain securities from "AFS securities" account to "HTM investments" account on various dates in January 2017 (reclassification dates) after the prescription period under the tainting rule has expired. The move was made to reclassify securities primarily intended to be held until maturity.

Details of reclassified securities follow (amounts in thousands):

	Face Value	Carrying Value at Reclassification Date	Carrying Value at December 31, 2017	Fair Value at December 31, 2017	Unamortized Net Unrealized Loss Deferred in Equity	Amortization Of Net Unrealized Loss
(in original currency)						
Peso-denominated						
Government securities	P3,198,484	P3,112,193	P3,129,559	P3,033,220	(P179,275)	P15,674
Private debt securities	3,012,210	2,986,441	2,991,488	2,966,885	(20,701)	5,059
	P6,210,694	P6,098,634	P6,121,047	P6,000,105	(P199,976)	P20,733
Dollar-denominated government securities	$63,770	$70,793	$70,346	$70,447	($2,695)	$208
Amount in PHP	P3,184,036	P3,509,111	P3,512,386	P3,517,417	(P134,548)	P10,409

Had these securities not been transferred to HTM investments, additional fair value loss that would have been charged against the statements of comprehensive income in 2017 amounted to P100.5 million and P19.5 million for peso denominated GS and private debt securities, respectively, and additional fair value gain of $0.3 million (P15.4 million) for dollar denominated GS.

The EIRs on peso denominated GS and private debt securities at reclassification dates ranged from 3.9% to 4.9% and from 4.5% to 6.8%, respectively. The EIRs on dollar denominated GS at reclassification dates ranged from 2.0% to 3.9%. The Bank expects to recover 100% of the principal and interest due on these reclassified securities. These securities are unimpaired as at December 31, 2017.

The unrealized losses deferred under "Net unrealized losses on AFS securities" at reclassification date amounted to P194.9 million, P25.8 million and $2.9 million (P143.7 million) on peso denominated GS, peso denominated private debt securities and dollar denominated GS, respectively.

11. Loans and Receivables

This account consists of:

	Note	2017	2016
Receivables from customers:			
Term loans		**P50,853,198,403**	P39,207,590,391
Housing loans		**5,333,897,931**	3,769,805,510
Auto loans		**3,156,510,357**	2,659,437,935
Bills purchased, import bills and trust receipts	*21*	**1,370,260,653**	1,250,494,385
Agri-agra loans		**1,075,247,714**	995,278,647
Direct advances		**1,014,523,212**	878,291,599
Others		**1,218,169,908**	1,030,932,972
		64,021,808,178	49,791,831,439
Less unearned interest income		**49,494,222**	14,145,839
		63,972,313,956	49,777,685,600
Sales contract receivables		**1,204,114,149**	694,761,223
Unquoted debt securities		**1,018,700,594**	1,064,714,656
Accounts receivable		**816,116,579**	862,302,717
Accrued interest receivable:			
Loans and receivables	*16*	**545,099,123**	637,361,405
Trading and investment securities	*8, 9, 10*	**258,625,623**	188,554,122
Due from BSP and other banks		**2,333,333**	10,727,083
Interbank loans receivable and SPURA		**934,348**	2,604,539
RCOCI		**4,526,608**	9,056,769
		67,822,764,313	53,247,768,114
Less allowance for credit losses	*17*	**2,411,635,842**	2,457,526,363
		P65,411,128,471	P50,790,241,751

Bills purchased, import bills and trust receipts includes bills purchased with contra account in "Bills purchased - contra" under "Other Liabilities" amounting to 1.2 billion and P1.1 billion as at December 31, 2017 and 2016, respectively (see Notes 21 and 34).

Other receivables from customers pertain to consumer loans such as benefit loans, salary loans, and credit cards.

Sales contract receivables arise mainly from the sale of foreclosed properties booked under "Investment properties" and "Non-current assets held for sale" accounts.

Accounts receivable mainly consists of amounts due from customers and other parties under open-account arrangements, advances for buyers of foreclosed properties, receivables from employees and other miscellaneous receivables.

Unquoted Debt Securities

In June 2016, the Bank transferred its investment in MRT III Bonds from "AFS securities" account to "Unquoted debt securities" under "Loans and receivables" account in the statements of financial position due to unavailability of a quoted price in an active market that can provide a reliable evidence of the investment's fair value. The investment has a total face value of $28.8 million (P1.4 billion) with an amortized cost and carrying value of $17.4 million (P817.8 million) and $15.9 million (P748.1 million), respectively, at the time of reclassification.

As at December 31, 2017 and 2016, the carrying value of MRT III Bonds amounted to \$14.6 million (P727.1 million) and \$15.5 million (P773.1 million), respectively. Effective interest rate on MRT III Bond at reclassification date is 12.8%. The Bank expects to recover 100% of the principal and interest due on MRT III Bond. This security is unimpaired as at December 31, 2017.

The unrealized losses deferred under "Net unrealized losses on AFS securities" at reclassification date amounted to \$1.5 million (P69.7 million). As at December 31, 2017 and 2016, unamortized net unrealized losses amounted to \$1.2 million (P57.5 million) and \$1.4 million (P68.2 million), respectively. Amortization of net unrealized loss amounted to \$0.2 million (P11.0 million) and \$0.1 million (P5.6 million) in 2017 and 2016, respectively.

Regulatory Reporting

As at December 31, 2017 and 2016, the breakdown of receivables from customers as to collateral follows (amounts in thousands, except percentages):

	2017		2016	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**P5,593,700**	**8.7**	P6,421,722	12.9
Chattel	**2,470,369**	**3.9**	2,650,238	5.3
Deed of assignment	**2,096,452**	**3.3**	2,269,620	4.6
Deposit hold-out	**1,512,774**	**2.4**	1,198,255	2.4
Others	**3,092,462**	**4.8**	2,843,278	5.7
	14,765,757	**23.1**	15,383,113	30.9
Unsecured	**49,256,051**	**76.9**	34,408,718	69.1
	P64,021,808	**100.0**	P49,791,831	100.0

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

	2017		2016	
	Amount	**%**	Amount	%
Real estate activities	**P15,571,886**	**24.3**	P12,577,229	25.3
Manufacturing	**10,377,046**	**16.2**	4,447,776	8.9
Construction	**8,610,270**	**13.5**	8,673,005	17.4
Electricity, gas, steam, and air-conditioning supply	**6,362,954**	**9.9**	3,669,670	7.4
Financial and insurance activities	**6,053,096**	**9.5**	3,966,176	8.0
Transportation and storage	**4,044,839**	**6.3**	3,602,677	7.2
Wholesale and retail trade, repair of motor vehicles and motorcycles	**2,577,977**	**4.0**	3,410,904	6.9
Arts, entertainment and recreation	**2,000,000**	**3.1**	-	0.0
Administrative and support service activities	**1,890,587**	**3.0**	2,840,663	5.7
Agriculture, forestry and fishing	**1,499,690**	**2.3**	918,459	1.8
Accommodation and food service activities	**252,554**	**0.4**	1,493,296	3.0
Others*	**4,780,909**	**7.5**	4,191,976	8.4
	P64,021,808	**100.0**	P49,791,831	100.0

**Others include Mining and Quarrying, Information and Communication, Education and other various activities*

BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio. The BROC constantly monitors the credit risk concentration of the Bank. As at December 31, 2017 and 2016, the Bank does not have credit concentration in any particular industry.

Under Section X309.1 of MORB, NPLs refer to loans whose principal and/or interest remain unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when 3 or more installments are in arrears.

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, (i.e. the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.0% of the total receivable balance).

Effective January 1, 2013, the exclusion of NPLs classified as loss and are fully covered by allowance was removed by BSP in the non-performing classification through Circular No. 772. In addition, BSP Circular No. 772 requires banks to compute their net NPLs by deducting the specific allowance for credit losses on the total loan portfolio (inclusive of interbank loans receivable) from the gross NPLs. The specific allowance for credit losses shall not be deducted from the total loan portfolio in computing the NPL ratio.

As at December 31, 2017 and 2016, the NPLs of the Bank, as reported to BSP are as follows:

	2017	2016
Gross NPLs	**P1,905,184**	P1,777,798
Less deductions as required by BSP	**1,689,148**	1,619,043
Net NPLs	**P216,036**	P158,755

Gross and net NPL ratios of the Bank are 2.8% and 0.3%, respectively, as at December 31, 2017 and 2.8% and 0.2%, respectively, as at December 31, 2016.

As at December 31, 2017 and 2016, restructured loans amounted to P1.1 billion and P1.2 billion, respectively. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. As at December 31, 2017 and 2016, restructured receivables from customers considered as NPLs amounted to P0.5 billion.

Interest Income on Loans and Receivables
This account consists of:

	Note	2017	2016
Receivable from customers:			
Term loans		**P1,963,878,813**	P1,992,349,587
Housing loans		**286,828,683**	211,042,226
Auto loans		**237,443,581**	198,525,693
Direct advances		**32,391,099**	34,753,886
Agri-agra loans		**28,074,400**	21,388,835
Bills purchased, import bills and trust receipts		**3,850,087**	7,524,649
Others		**145,634,739**	116,710,626
		2,698,101,402	2,582,295,502
Unquoted debt securities		**103,915,635**	53,996,597
Sales contract receivable		**44,974,090**	58,152,284
Legal interest on PEACe bonds	16	**-**	181,161,821
		P2,846,991,127	P2,875,606,204

Others pertain to interest income from consumer loans such as benefit loans, salary loans, and credit cards.

As at December 31, 2017 and 2016, 59.6% and 45.1%, respectively, of the total receivables from customers were subject to periodic interest repricing. Peso-denominated loans earn annual fixed interest rates ranging from 1.7% to 54.0% in 2017 and 2016. Dollar-denominated loans earn annual fixed interest rates ranging from 0.1% to 13.0% in 2017 and 2016.

Unquoted debt instruments bear EIR per annum of 12.8% in 2017 and 2016.

Sales contract receivables bear fixed interest rates ranging from 3.4% to 13.2% and 3.4% to 14.3% in 2017 and 2016, respectively.

12. Non-current Assets Held for Sale

As at December 31, 2017 and 2016, these non-current assets were stated at carrying amount and comprised the following:

		2017			2016		
	Note	**Land**	**Buildings**	**Total**	Land	Buildings	Total
Balance at beginning of year		**P -**	**P53,667,264**	**P53,667,264**	P11,156,167	P58,090,670	P69,246,837
Reclassifications	15	**-**	**-**	**-**	(4,304,682)	(1,414,106)	(5,718,788)
Disposals		**-**	**(5,545,707)**	**(5,545,707)**	(6,851,485)	(3,009,300)	(9,860,785)
Balance at end of year		**P -**	**P48,121,557**	**P48,121,557**	P -	P53,667,264	P53,667,264

In 2017 and 2016, gains on sale of non-current assets held for sale under “Gains on foreclosure and sale of property and equipment and foreclosed assets - net” amounted to P6.7 million and P14.8 million, respectively.

In 2016, the Bank ceased to classify certain properties with carrying value of P5.7 million as non-current assets held for sale due to unlikelihood of the sale. The properties were reclassified from “Non-current assets held for sale” account to “Investment properties” account in the statements of financial position. No adjustment to the carrying amount of the properties was recognized in the statements of income.

There is no cumulative income or expenses included in OCI relating to non-current assets held for sale.

13. Investment in Associate

The details of movements of the Bank's equity investment in BIC follow:

	Note	2017	2016
Acquisition cost (24.25%-owned)		**P75,395,200**	P75,395,200
Accumulated equity in net loss and OCI:			
Balance at beginning of year		**(21,204,083)**	(20,298,174)
Share in net loss		**(1,799,558)**	(1,410,096)
Share in other comprehensive income (loss)		**(316,108)**	504,187
Balance at end of year		**(23,319,749)**	(21,204,083)
Allowance for impairment loss	*17*	**(5,925,786)**	(5,925,786)
	34	**P46,149,665**	P48,265,331

The following table shows the summarized financial information of BIC:

	2017**	2016*
Assets	**P193,514,285**	P196,100,349
Liabilities	**(3,206,386)**	(3,679,224)
Net assets	**190,307,899**	192,421,125
Revenues	**4,635,867**	1,684,777
Net loss for the year	**(2,140,966)**	(11,697,139)
OCI for the year	**27,741**	(1,316,496)
Total comprehensive loss for the year	**(2,113,225)**	(13,013,635)

**Based on 2016 audited financial statements*
***Based on 2017 unaudited numbers*

During the BOD meeting on January 18, 2011, the Board of the Bank approved a resolution which provides that the Bank is not willing to invest in additional capital stock of BIC and that it is willing to sell its shares in BIC to any interested and qualified buyer. Further, the Bank will formally request BIC to amend its Articles of Incorporation to reflect a change of name in order to remove Bancommerce from its name, the Bank not being a majority stockholder of the investee, and not having any participation in its operations.

On April 18, 2013, by a majority vote of BIC's BOD and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock, a motion has been presented and approved to change the corporate name from BIC Investment and Capital Corporation to BIC Management and Consultancy, Inc. and to amend its articles of incorporation to drop and withdraw its license as an investment house. BIC submitted a letter to the SEC dated April 22, 2013, about the report of corporate approval to amend the Articles of Incorporation to change the corporate name and the primary purpose of the corporation. On July 23, 2014, SEC approved the said change of corporate name and the amendment of its articles of incorporation.

As at December 31, 2017 and 2016, the Bank's subscribed capital stock in BIC amounted to P75.8 million out of BIC's outstanding capital stock of P312.5 million.

14. Property and Equipment

The movements in property and equipment follow:

	December 31, 2017		
At Cost	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost			
Balance at January 1	**P1,664,853,505**	**P750,932,154**	**P2,415,785,659**
Additions	**210,079,290**	**25,887,373**	**235,966,663**
Disposals	**(120,219,252)**	**-**	**(120,219,252)**
Balance at December 31	**1,754,713,543**	**776,819,527**	**2,531,533,070**
Accumulated Depreciation and Amortization			
Balance at January 1	**1,344,065,154**	**642,014,144**	**1,986,079,298**
Depreciation and amortization	**91,641,098**	**40,778,577**	**132,419,675**
Disposals	**(65,251,252)**	**-**	**(65,251,252)**
Balance at December 31	**1,370,455,000**	**682,792,721**	**2,053,247,721**
Net Book Value at December 31	**P384,258,543**	**P94,026,806**	**P478,285,349**

		December 31, 2017		
At Appraised Values	***Note***	**Land**	**Buildings**	**Total**
Revalued Amount				
Balance at January 1		**P129,803,199**	**P823,122,868**	**P952,926,067**
Additions		**-**	**10,618,449**	**10,618,449**
Disposals		**-**	**(24,624,703)**	**(24,624,703)**
Fair value adjustments		**-**	**(5,202,992)**	**(5,202,992)**
Reclassifications		**-**	**-**	**-**
Balance at December 31		**129,803,199**	**803,913,622**	**933,716,821**
Accumulated Depreciation				
Balance at January 1		**-**	**97,739,757**	**97,739,757**
Depreciation		**-**	**28,007,937**	**28,007,937**
Disposals		**-**	**(16,165,688)**	**(16,165,688)**
Fair value adjustments		**-**	**(2,314,340)**	**(2,314,340)**
Reclassifications		**-**	**-**	**-**
Balance at December 31		**-**	**107,267,666**	**107,267,666**
Allowance for impairment losses	*17*	**(14,733,200)**	**-**	**(14,733,200)**
Net Book Value at December 31		**P115,069,999**	**P696,645,956**	**P811,715,955**

	December 31, 2016		
At Cost	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at January 1	P1,647,309,686	P715,508,684	P2,362,818,370
Additions	133,493,793	36,409,687	169,903,480
Disposals	(115,949,974)	(986,217)	(116,936,191)
Balance at December 31	1,664,853,505	750,932,154	2,415,785,659
Accumulated Depreciation and Amortization			
Balance at January 1	1,295,469,827	601,129,494	1,896,599,321
Depreciation and amortization	107,183,908	40,884,650	148,068,558
Disposals	(58,588,581)	-	(58,588,581)
Balance at December 31	1,344,065,154	642,014,144	1,986,079,298
Net Book Value at December 31	P320,788,351	P108,918,010	P429,706,361

		December 31, 2016		
At Appraised Values	*Note*	Land	Buildings	Total
Revalued Amount				
Balance at January 1		P129,803,199	P1,480,488,329	P1,610,291,528
Additions		-	24,540,021	24,540,021
Disposals		-	-	-
Fair value adjustments		-	-	-
Reclassifications	*15*	-	(681,905,482)	(681,905,482)
Balance at December 31		129,803,199	823,122,868	952,926,067
Accumulated Depreciation				
Balance at January 1		-	167,525,357	167,525,357
Depreciation		-	36,206,566	36,206,566
Disposals		-	-	-
Fair value adjustments		-	-	-
Reclassifications	*15*	-	(105,992,166)	(105,992,166)
Balance at December 31		-	97,739,757	97,739,757
Allowance for impairment losses	*17*	(14,733,200)	-	(14,733,200)
Net Book Value at December 31		P115,069,999	P725,383,111	P840,453,110

In 2017 and 2016, net gains on sale of property and equipment under "Gains on foreclosure and sale of property and equipment and foreclosed assets - net" account in the statements of income amounted to P1.0 million and P0.7 million, respectively.

The Bank engaged various accredited independent appraisers to determine the fair value of its land and buildings. Fair value is determined by reference to market-based evidence. The valuations performed by the appraisers are based on market prices of similar properties in the same areas the land and building are located, adjusted for any difference in the nature, location or condition of the specific property. Land and buildings were appraised in 2014.

In 2017, the Bank recognized decrease in fair value of buildings included under "Property and equipment" and "Investment properties" accounts of P2.9 million and P84.1 million, respectively (see Note 15). The reappraised properties were subsequently sold at fair value through an installment sale and the full transfer of revaluation increment - net of tax to retained earnings amounting to P3.8 million and P256.9 million, respectively, was presented in the statements of changes in equity. The tax effect on the uncollected consideration P89.4 million is lodged under deferred tax liability on revaluation increment pending its collection (see Note 31).

The fair value measurement for land and buildings has been categorized as a Level 2 recurring fair value based on the inputs to the valuation technique used (see Note 6).

As at December 31, 2017 and 2016, appraisal increment for land and building, including revaluation increment for the reclassified properties to “Investment properties” account, as presented under “Revaluation increment on property and equipment and investment properties - net of tax” account amounted to P202.3 million and P638.8 million, respectively. These amounts are gross of deferred tax effect amounting to P60.7 million and P191.6 million, respectively (see Note 31).

In 2016, land and building, with carrying value of P575.9 million and fair value of P650.5 million, which are vacant and no longer used for administrative purposes, were reclassified from “Property and equipment” account to “Investment properties” account in the statements of financial position. As at December 31, 2017 and 2016, the appraisal increment of the land and building reclassified to “Investment properties” account amounted to P79.7 million and P502.3 million, respectively, gross of deferred tax effect amounting to P23.9 million and P150.7 million, respectively (see Note 31).

As at December 31, 2017 and 2016, the cost of fully depreciated property and equipment still in use amounted to P1.1 billion and P1.0 billion, respectively.

If land and buildings were measured using the cost model, the carrying amounts would have been as follows:

	December 31, 2017			December 31, 2016		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Cost	**P41,570,353**	**P838,758,342**	**P880,328,695**	P41,570,353	P842,955,164	P884,525,517
Accumulated depreciation	**-**	**(176,496,736)**	**(176,496,736)**	-	(165,842,160)	(165,842,160)
	P41,570,353	**P662,261,606**	**P703,831,959**	P41,570,353	P677,113,004	P718,683,357

15. Investment Properties

The movements in investment properties follow:

		December 31, 2017		
	Note	**Land**	**Buildings**	**Total**
Balance at January 1		**P4,436,639,326**	**P1,776,948,904**	**P6,213,588,230**
Additions		**275,126,656**	**61,657,470**	**336,784,126**
Changes in market value recognized in profit of loss		**406,054,037**	**3,043,123**	**409,097,160**
Changes in market value recognized in OCI	*14*	**-**	**(55,660,257)**	**(55,660,257)**
Reclassifications	*12,14*	**-**	**-**	**-**
Disposals	*14*	**(551,104,434)**	**(551,042,889)**	**(1,102,147,323)**
Balance at December 31		**P4,566,715,585**	**P1,234,946,351**	**P5,801,661,936**

		December 31, 2016		
	Note	Land	Buildings	Total
Balance at January 1		P4,178,608,537	P1,222,811,948	P5,401,420,485
Additions		336,093,102	58,985,972	395,079,074
Changes in market value recognized in profit of loss		65,073,872	(17,487,707)	47,586,165
Changes in market value recognized in OCI	*14*	-	-	-
Reclassifications	*12, 14*	4,304,682	651,935,748	656,240,430
Disposals	*14*	(147,440,867)	(139,297,057)	(286,737,924)
Balance at December 31		P4,436,639,326	P1,776,948,904	P6,213,588,230

The fair values of the Bank's investment properties have been determined by BSP-accredited appraisers or in-house appraisers depending on their respective amounts, on the basis of recent sales of similar properties in the same areas where the investment properties are located taking into account the economic conditions prevailing at the time the valuations were made. The recurring fair value measurement for investment property has been categorized as a Level 2 fair value based on the inputs to the valuation technique used (see Note 6).

Gain on foreclosure and sale of investment properties under "Gains on foreclosure and sale of property and equipment and foreclosed assets - net" consists of the following:

	2017	2016
Gain on foreclosure	**P187,371,212**	P250,186,685
Gain (loss) on assets sold	**115,382,724**	(11,794,216)
	P302,753,936	P238,392,469

Rental income on investment properties (included in "Miscellaneous income" account in the statements of income) in 2017 and 2016 amounted to P0.85 million and P1.3 million, respectively.

Direct operating expenses on investment properties that generated rental income (included under "Litigation and acquired assets" in "Other expenses - miscellaneous" account and "Taxes and licenses" account in the statements of income) in 2017 and 2016 amounted to nil and P3.6 million, respectively. Direct operating expenses on investment properties such as litigation expenses, included under "Litigation and acquired assets" in "Other expenses - miscellaneous" account, and real estate taxes, included under "Taxes and licenses" account in the statements of income, that did not generate rental income in 2017 and 2016 amounted to P70.7 million and P72.9 million, respectively (see Note 30).

16. Other Assets

This account consists of:

	Note	2017	2016
Creditable withholding tax		**P711,650,302**	P588,735,746
Intangible assets*		**328,421,324**	368,515,704
Sinking fund	*23*	**266,378,791**	263,575,455
Other properties acquired*		**44,018,299**	41,988,535
Prepaid expense		**37,670,546**	36,158,980
Documentary stamps		**30,283,539**	55,413,765
Withholding tax on PEACe bonds		**-**	580,336,854
Miscellaneous assets	*35*	**4,620,746,949**	4,619,697,320
		6,039,169,750	6,554,422,359
Less allowance for impairment losses	*17*	**4,617,538,302**	4,616,436,465
		P1,421,631,448	P1,937,985,894

**net of accumulated amortization/depreciation, gross of allowance for impairment losses*

Withholding Tax on PEACe Bonds

This account represents capitalized taxes withheld by the Bureau of Treasury (BTr) when the Bank's investment in Poverty Eradication and Alleviation Certificates (PEACe) bonds matured on October 18, 2011. This was in relation to the Bureau of Internal Revenue (BIR) ruling No. 370 - 2011 dated October 7, 2011 imposing a 20.0% withholding tax on accumulated interest income on the PEACe bonds.

On October 17, 2011, the Bank, along with a consortium of other banks with investment in PEACe bonds filed a petition with the Supreme Court seeking a temporary restraining order (TRO) against the implementation of the said BIR ruling. The Supreme Court (SC) issued a TRO, and in a resolution, enjoined to prohibit the implementation of the BIR ruling and directed that the 20.0% final withholding tax (FWT) on interest income from PEACe bonds withheld be remitted to the banks and placed in escrow account pending resolution of the petition.

In a decision dated January 13, 2015, the SC *en banc* nullified BIR Ruling Nos. 370-211 and DA 378-2011, reprimanded the BTr for its continued retention of the amount corresponding to the 20.0% FWT despite the SC's directive in the TRO and ordered it to immediately release and pay the banks the amount corresponding to the 20.0% FWT.

The SC also stated that should the PEACe bonds be found to be within the coverage of deposit substitutes, the BTr must nevertheless pay the face value of the PEACe bonds to the banks and for the BTr to collect the unpaid FWT directly from RCBC Capital (underwriter). Respondents BIR and BTr and intervenor RCBC and RCBC Capital sought a reconsideration of the above decision in March 2015, seeking the reversal of the above findings.

In a Resolution promulgated on August 16, 2016, the SC denied the motion for reconsideration of Respondents BIR and BTr while the SC partially granted that of RCBC and RCBC capital. The SC agreed that RCBC and RCBC Capital together with other petitioner banks merely relied on the opinions of the BIR on their vested rights to exemption from FWT. The SC ordered BTr to immediately release to and pay the banks the amount of P4.96 billion representing the 20% FWT on the PEACe bonds plus legal interest at 6.0% per annum from October 19, 2011 until full payment.

Respondents BIR and BTr filed a motion on October 19, 2016 for leave to file anew and admit its motion for partial reconsideration of the Resolution dated August 16, 2016. However, the SC denied the motion in a minute Resolution dated November 22, 2016 because a second motion for reconsideration is a prohibited pleading under the Rules of Court. The SC moreover declared that it shall accept no further pleading or motion and directed the issuance of Entry of Judgment.

In 2016, the Bank recognized full reversal of the P290.2 million allowance for impairment losses on PEACe bonds included under “Reversal of credit and impairment loses” in the statements of income based on Management’s assessment of the recoverability of the disputed amount and in light of the development in the status of the related legal case.

By virtue of the Notice of Resolution dated January 17, 2017, the decision of the SC directing the BTr to immediately release to and pay the banks the 20% FWT on the PEACe bonds plus legal interest at 6.0% per annum from October 19, 2011 until full payment has attained finality.

In February 2017, the Bank accrued interest income on PEACe bonds amounting to P181.2 million included under “Interest income on loans and receivables” in the statements of income as at December 31, 2016 after qualifying as an adjusting event after the reporting date (see Note 11).

The BTr and the petitioner banks started negotiations for a settlement agreement in March 2017. Based on the agreement, each petitioner bank will agree to receive as payment the total amount withheld and 4% interest per annum in the form of securities, instead of receiving the total amount withheld and 6% interest per annum based on the Notice of Resolution dated January 17, 2018.

On April 11, 2017, the settlement agreement was executed in which the Bank received the withheld amount and 4.0% interest per annum from October 19, 2011 to April 11, 2017 in the form of 3-year Retail Treasury Bonds with interest of 4.25% per annum included under "AFS securities” (see Note 9). The settlement resulted in a loss of P54.0 million which is included under “Miscellaneous expense” (see Note 30).

Intangible Assets
Intangible assets consist of:

	2017	2016
Software costs*	**P268,421,324**	P308,515,704
Branch licenses	**60,000,000**	60,000,000
	328,421,324	368,515,704
Less allowance for impairment losses	**90,278,696**	90,278,696
	P238,142,628	P278,237,008

**net of accumulated amortization, gross of allowance for impairment losses*

Movements in software costs follow:

	2017	2016
Cost		
Balance at January 1	**P638,382,285**	P580,729,124
Additions	**67,795,996**	63,133,883
Disposals and others	**(630,000)**	(5,480,722)
Balance at end of year	**705,548,281**	638,382,285
Accumulated Amortization		
Balance at January 1	**329,866,581**	224,183,048
Amortization for the year	**107,666,376**	111,164,255
Disposals and others	**(406,000)**	(5,480,722)
Balance at end of year	**437,126,957**	329,866,581
Less allowance for impairment losses	**90,278,696**	90,278,696
Net Book Value	**P178,142,628**	P218,237,008

Other Properties Acquired
Movements in the other properties acquired follow:

	2017	2016
Cost		
Balance at January 1	**P52,178,714**	P18,673,404
Additions	**58,058,000**	52,853,000
Disposals	**(50,450,192)**	(19,347,690)
Balance at end of year	**59,786,522**	52,178,714
Accumulated Depreciation		
Balance at January 1	**10,190,179**	3,648,185
Depreciation for the year	**18,413,324**	10,336,121
Disposals	**(12,835,280)**	(3,794,127)
Balance at end of year	**15,768,223**	10,190,179
Less allowance for impairment losses	**7,188**	382,361
Net Book Value	**P44,011,111**	P41,606,174

In 2017 and 2016, gain on foreclosure amounted to P1.0 million and P1.1 million, respectively. Gain on sale of other properties acquired under “Gains on foreclosure and sale of property and equipment and foreclosed assets - net” amounted to P6.2 million and P2.0 million in 2017 and 2016, respectively (see Note 34).

Deferred Charges - Loss on Sale to SPV
The Bank sold certain non-performing assets (NPAs) to a special purpose vehicle (SPV) in 2007 and 2005. Pursuant to the requirements of PFRSs, the losses arising from the sale of the NPAs amounting to P432.1 million and P1.5 billion in 2007 and 2005, respectively, were recognized in full in the period such losses were incurred. The NPLs were sold for cash to an SPV pursuant to Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002.*

For its separate prudential reporting to BSP, the Bank continues to defer and amortize the losses from the sale of NPLs over ten years as provided under RA No. 9182:

End of Period from Date of Transaction	Cumulative Write-down of Deferred Charges
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

For the purpose of computing the Bank's income tax expense, the loss is treated as an ordinary loss and will be carried over as a deduction from the Bank's taxable gross income for a period of 5 consecutive taxable years immediately following the year of sale. For income tax reporting, the deferred losses were fully recognized in 2012 and 2010, respectively.

Miscellaneous Assets

This account includes NPAs amounting to P4.4 billion as at December 31, 2017 and 2016 which were assumed by the Bank in connection with the Purchase and Sale Agreement (PSA) entered into by the Bank with Traders Royal Bank (TRB) in 2002 (see Note 35). Pursuant to the requirements of PFRS, the impairment losses on the NPAs amounting to P4.4 billion as at December 31, 2017 and 2016, were charged in full in the period incurred.

For its separate prudential reporting to BSP, the Bank was allowed under the MB Resolution No. 1751, dated November 8, 2001, as further amended by MB Resolution No. 489, dated April 3, 2003 and pursuant to MB Resolution No. 1950, dated November 21, 2013, to defer the full recognition of the impairment losses. The Bank annually recognizes provisions for impairment losses to gradually meet the foregoing provisioning requirement based on the net yield earned by the Bank from the Financial Assistance Agreement (FAA) with Philippine Deposit Insurance Corporation (PDIC) until November 29, 2013 when the collateralized GS was sold and the obligation was fully settled. In 2017 and 2016, provisions for impairment losses recognized for prudential reporting to BSP amounted to P159.3 million and P158.9 million, respectively (see Note 35).

17. Allowance for Credit and Impairment Losses

Movements in allowance for credit and impairment losses are summarized as follows (amounts in thousands):

	December 31, 2017				
	AFS Securities (Note 9)	**Loans and Receivables** (Note 11)	**Property and Equipment** (Note 14)	**Other Assets*** (Notes 13 and 16)	**Total**
Balance at beginning of year	**P300,158**	**P2,457,526**	**P14,733**	**P4,622,362**	**P7,394,779**
(Reversal of) credit and impairment losses for the year	**6,165**	**(22,335)**	**-**	**1,195**	**(14,975)**
Accounts charged-off	**-**	**(24,474)**	**-**	**(93)**	**(24,567)**
Foreign exchange differences	**602**	**919**	**-**	**-**	**1,521**
Balance at end of year	**P306,925**	**P2,411,636**	**P14,733**	**P4,623,464**	**P7,356,758**

**Includes allowance for impairment loss on investment in associate (see Note 13) and other assets (see Note 16)*

	December 31, 2016				
	AFS Securities (Note 9)	Loans and Receivables (Note 11)	Property and Equipment (Note 14)	Other Assets* (Notes 13 and 16)	Total
Balance at beginning of year	P299,990	P2,338,501	P14,733	P4,858,705	P7,511,929
(Reversal of) credit and impairment losses for the year	-	128,109	-	(236,148)	(108,039)
Accounts charged-off	-	(22,017)	-	(195)	(22,212)
Foreign exchange differences	168	12,933	-	-	13,101
Balance at end of year	P300,158	P2,457,526	P14,733	P4,622,362	P7,394,779

**Includes allowance for impairment loss on investment in associate (see Note 13) and other assets (see Note 16)*

A reconciliation of the allowance for credit losses for loans and receivables follows:

December 31, 2017

	Note	Term Loans	Direct Advances	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Housing loans	Auto loans	Others*	Total
Balance at beginning of year		**P981,424,006**	**P126,131,270**	**P8,203,792**	**P77,954,954**	**P28,508,836**	**P115,739,834**	**P1,119,563,671**	**P2,457,526,363**
(Reversal of) credit losses for the year		**(208,166,077)**	**(873,684)**	**8,104,077**	**(5,050,256)**	**11,446,652**	**63,631,345**	**108,572,706**	**(22,335,237)**
Accounts charged-off		**-**	**-**	**-**	**-**	**(4,031,675)**	**(18,521,435)**	**(1,920,960)**	**(24,474,070)**
Foreign exchange differences		**518,462**	**-**	**-**	**-**	**-**	**-**	**400,324**	**918,786**
Balance at end of year		**P773,776,391**	**P125,257,586**	**P16,307,869**	**P72,904,698**	**P35,923,813**	**P160,849,744**	**P1,226,615,741**	**P2,411,635,842**
Total Credit Allowance	*11*								
Individual impairment									**P1,952,777,237**
Collective impairment									**458,858,605**
									P2,411,635,842
Gross amount of loans and receivables, individually determined to be impaired									**P3,419,455,553**

**Includes other receivable from customers, i.e. credit cards and salary or personal loans, accounts receivable, sales contract receivable, accrued interest receivable and unquoted debt securities*

December 31, 2016

	Note	Term Loans	Direct Advances	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Housing loans	Auto loans	Others*	Total
Balance at beginning of year		P1,051,895,363	P56,562,192	P6,935,179	P90,591,352	P35,939,770	P44,823,213	P1,051,753,890	P2,338,500,959
(Reversal of) credit losses for the year		(58,831,766)	69,569,078	1,268,613	(12,636,398)	(7,430,934)	70,916,621	65,253,606	128,108,820
Accounts charged-off		(19,737,504)	-	-	-	-	-	(2,279,466)	(22,016,970)
Foreign exchange differences		8,097,913	-	-	-	-	-	4,835,641	12,933,554
Balance at end of year		P981,424,006	P126,131,270	P8,203,792	P77,954,954	P28,508,836	P115,739,834	P1,119,563,671	P2,457,526,363
Total Credit Allowance	*11*								
Individual impairment									P1,976,227,774
Collective impairment									481,298,589
									P2,457,526,363
Gross amount of loans and receivables, individually determined to be impaired									P3,481,564,099

**Includes other receivable from customers, i.e. credit cards and salary or personal loans, accounts receivable, sales contract receivable, accrued interest receivable and unquoted debt securities*

Movement of the individual and collective allowance for credit losses on loans and receivables:

	December 31, 2017			December 31, 2016		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Balance at beginning of year	**P1,976,227,774**	**P481,298,589**	**P2,457,526,363**	P1,893,322,276	P445,178,683	P2,338,500,959
(Reversals of) credit losses for the year	**(22,437,000)**	**101,763**	**(22,335,237)**	72,251,410	55,857,410	128,108,820
Accounts charged-off	**(1,920,960)**	**(22,553,110)**	**(24,474,070)**	(2,279,466)	(19,737,504)	(22,016,970)
Foreign exchange differences	**907,423**	**11,363**	**918,786**	12,933,554	-	12,933,554
Balance at end of year	**P1,952,777,237**	**P458,858,605**	**P2,411,635,842**	P1,976,227,774	P481,298,589	P2,457,526,363

18. Deposit Liabilities

Effective May 30, 2014, non-FCDU deposit liabilities are subject to reserve requirement equivalent to 20.0% under BSP Circular No. 832. The required reserves shall be kept in the form of deposits placed in bank's Demand Deposit Accounts (DDAs) with BSP and any government securities which are previously used as compliance until they mature.

On June 2016, BSP-Special Deposit Accounts (SDA) were replaced with BSP- Overnight Deposit Accounts (ODA).

As at December 31, 2017 and 2016, the Bank is in compliance with such reserve requirements. Due from BSP-DDA amounting to P24.2 billion and P21.2 billion as at December 31, 2017 and 2016, respectively, is available for meeting these reserve requirements as reported to BSP.

On February 15, 2018, BSP issued Circular No. 997, which amends the reserve requirement on non-FCDU deposit liabilities from 20.0% to 19.0% effective on March 2, 2018.

In 2017 and 2016, Due from BSP-ODA earned interest rate of 2.5% and Due from BSP-Term Deposit Accounts earned interest rates ranging from 3.0% to 3.5% and from 2.9% to 3.5%, respectively. Due from BSP-SDA earn interest rate of 2.5% in 2016.

Interest expense on deposit liabilities follows:

	2017	2016
Demand	**P244**	P848
Savings	**636,030,314**	670,100,219
Time	**231,078,277**	192,527,826
	P867,108,835	P862,628,893

Peso-denominated deposits are subject to annual interest rates ranging from 0.1% to 4.0% and from 0.1% to 4.5% in 2017 and 2016, respectively. Foreign currency-denominated deposits are subject to annual interest rates ranging from 0.1% to 2.3% in 2017 and from 0.1% to 1.9% in 2016.

19. Bills Payable

This account consists of short-term peso denominated borrowings from local banks and borrowings from the rediscounting facility availed by TRB from Social Security System, which was assumed by the Bank in connection with the PSA entered into by the Bank with TRB in 2002. Borrowings from rediscounting facility were collateralized by certain receivables from customers amounting to P0.3 million. As at December 31, 2017 and 2016, there are no short-term borrowings from local banks.

Borrowings from rediscounting facility are subject to annual interest rates ranging from 8.0% to 12% in 2017 and 5% to 12% in 2016. Short-term borrowings from local banks are subject to annual interest rates ranging from 2.7% to 3.0% in 2017 and 2.5% to 2.6% in 2016.

Interest expense on short-term borrowings amounted to P0.5 million and P0.1 million in 2017 and 2016, respectively. In 2017, "Interest expense on bills payable and others" under the statements of income includes interest expense on tax settlement amounting to P13.8 million.

20. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	**2017**	2016
Accrued interest payable:			
Deposit liabilities	*18*	**P200,070,129**	P159,732,239
Bills payable	*19*	**4,085**	5,170
		200,074,214	159,737,409
Accrued taxes payable		**151,549,883**	178,506,796
Accrued employee and other benefits		**154,306,096**	172,463,403
Accrued insurance		**116,363,721**	112,159,680
Accrued lease liability		**74,398,052**	81,966,906
Accrued penalties		**64,966,606**	87,705,991
Accrued equipment-related expenses		**47,207,586**	29,949,206
Accrued management and professional fees		**20,879,898**	10,010,866
Other accrued expenses		**77,120,226**	109,443,593
		P906,866,282	P941,943,850

Other accrued expenses include accruals for utilities expenses, security services, janitorial, messengerial and various expenses attributable to the Bank's operations.

21. Other Liabilities

This account consists of:

	Note	2017	2016
Bills purchased - contra	11	**P1,247,740,827**	P1,098,815,398
Accounts payable		**473,086,703**	551,859,236
Due to preferred shareholders	23	**266,378,791**	263,575,455
Retirement liability	28	**185,446,237**	84,036,498
Withholding tax payable		**54,558,880**	52,586,188
Due to Treasurer of the Philippines		**53,480,731**	28,677,661
Miscellaneous		**138,267,766**	146,283,347
		P2,418,959,935	P2,225,833,783

Accounts payable mainly pertains to advance payments from customers, inward and outward remittances received by the Bank pending payment or application to designated accounts.

Miscellaneous include unearned income from bank guarantee, unclaimed salaries of resigned employees and other credit dormant accounts.

22. Maturity Profile of Assets and Liabilities

The following tables present the maturity profile of the assets and liabilities of the Bank based on the amounts to be recovered or settled within and/or after more than 12 months after the reporting period (in thousands):

		2017			2016		
	Note	Within 12 Months	Over 12 Months	Total	Within 12 Months	Over 12 Months	Total
Financial Assets - gross							
COCI		**P1,384,982**	**P -**	**P1,384,982**	P1,635,565	P -	P1,635,565
Due from BSP	18	**25,704,212**	**-**	**25,704,212**	31,232,967	-	31,232,967
Due from other banks		**3,185,996**	**-**	**3,185,996**	3,839,466	-	3,839,466
Interbank loans receivable and SPURA	7	**6,316,150**	**-**	**6,316,150**	18,076,096	-	18,076,096
Financial assets at FVPL:	8						
Government securities held-for-trading		**76,081**	**-**	**76,081**	68,346	-	68,346
Derivative assets		**-**	**24,965**	**24,965**	-	24,860	24,860
Private debt securities		**-**	**-**	**-**	-	305	305
AFS securities - gross:	9						
Quoted government securities		**4,714,350**	**11,373,711**	**16,088,061**	4,992,023	14,107,593	19,099,616
Quoted other debt securities		**-**	**881,951**	**881,951**	42,406	4,042,221	4,084,627
Quoted equity securities		**-**	**104,081**	**104,081**	-	106,606	106,606
Unquoted equity securities		**-**	**339,483**	**339,483**	-	335,089	335,089
HTM investments:	10						
Quoted government securities		**-**	**9,538,399**	**9,538,399**	-	-	-
Quoted other debt securities		**-**	**2,991,488**	**2,991,488**	-	-	-
Loans and receivables - gross:	11						
Receivable from customers:							
Term loans		**27,834,297**	**23,018,901**	**50,853,198**	16,255,869	22,951,721	39,207,590
Housing loans		**17,994**	**5,315,904**	**5,333,898**	9,854	3,759,952	3,769,806
Auto loans		**100,358**	**3,056,152**	**3,156,510**	77,756	2,581,682	2,659,438
Bills purchased, import bills and trust receipts		**1,370,261**	**-**	**1,370,261**	1,250,494	-	1,250,494
Agri-agra loans		**1,005,056**	**70,192**	**1,075,248**	831,185	164,094	995,279
Direct advances		**1,001,185**	**13,338**	**1,014,523**	855,519	22,773	878,292
Others		**613,473**	**604,697**	**1,218,170**	543,134	487,798	1,030,932
Sales contract receivables		**174,079**	**1,030,036**	**1,204,115**	79,456	615,305	694,761
Unquoted debt securities		**-**	**1,018,700**	**1,018,700**	-	1,064,715	1,064,715
Accrued interest receivable		**806,992**	**-**	**806,992**	839,247	-	839,247
Accounts receivable		**816,116**	**-**	**816,116**	862,303	-	862,303
RCOCI		**4,527**	**-**	**4,527**	9,057	-	9,057
Investment in associate	13	**-**	**75,395**	**75,395**	-	75,395	75,395
		75,126,109	**59,457,393**	**134,583,502**	81,500,743	50,340,109	131,840,852

Forward

		2017			2016		
	Note	**Within 12 Months**	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Non-financial Assets - gross							
Non-current assets held for sale	12	**P48,122**	**P -**	**P48,122**	P53,667	P -	P53,667
Property and equipment	14	**-**	**3,465,250**	**3,465,250**	-	3,368,712	3,368,712
Investment properties	15	**-**	**5,801,662**	**5,801,662**	-	6,213,588	6,213,588
Deferred tax assets - net	31	**-**	**108,225**	**108,225**	-	168,489	168,489
Other assets	16	**956,732**	**5,535,333**	**6,492,065**	848,139	6,046,340	6,894,479
		1,004,854	**14,910,470**	**15,915,324**	901,806	15,797,129	16,698,935
		P76,130,963	**P74,367,863**	**150,498,826**	P82,402,549	P66,137,238	148,539,787
Less:							
Allowance for credit and impairment losses	17			**7,356,758**			7,394,779
Accumulated equity in net loss	13			**23,320**			21,204
Accumulated depreciation and amortization	14, 16			**2,613,411**			2,423,876
Unearned interest	11			**49,494**			14,146
Total				**P140,455,843**			P138,685,782

		2017			2016		
	Note	**Within 12 Months**	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Financial Liabilities							
Deposit liabilities	18						
Demand		**P26,863,177**	**P -**	**P26,863,177**	P24,422,978	P -	P24,422,978
Savings		**74,895,962**	**-**	**74,895,962**	68,709,645	-	68,709,645
Time		**15,945,691**	**1,063,222**	**17,008,913**	23,061,522	1,301,870	24,363,392
Bills payable	19	**20**	**247**	**267**	-	484	484
Manager's checks		**560,296**	**-**	**560,296**	716,060	-	716,060
Accrued interest and other expenses*	20	**526,612**	**-**	**526,612**	509,007	-	509,007
Other liabilities**	21	**1,912,576**	**266,379**	**2,178,955**	1,825,636	263,575	2,089,211
		120,704,334	**1,329,848**	**122,034,182**	119,244,848	1,565,929	120,810,777
Non-financial Liabilities							
Accrued taxes and other expense payable	20	**380,254**	**-**	**380,254**	432,937	-	432,937
Other liabilities	21	**240,005**	**-**	**240,005**	136,623	-	136,623
		620,259	**-**	**620,259**	569,560	-	569,560
		P121,324,593	**P1,329,848**	**P122,654,441**	P119,814,408	P1,565,929	P121,380,337

**amounts exclude accrued employee and other benefits, accrued taxes payable and accrued lease liability*
***amounts exclude withholding tax payable and retirement liability*

23. Capital

As at December 31, 2017 and 2016, the Bank has 112,241,112 common shares issued and subscribed with a par value of P100 and has no outstanding preferred shares. However, the Bank has outstanding liability for the unpaid portion of the redemption price of preferred shares amounting to P266.4 million and P263.6 million as at December 31, 2017 and 2016, respectively, which is recorded as "Due to preferred shareholders" account under "Other liabilities" in Note 21 to the financial statements. As at December 31, 2017 and 2016, the related sinking fund which is recorded as "Miscellaneous assets" account amounting to P266.4 million and P263.6 million, respectively, has been set up to fund the eventual settlement of this liability (see Note 16).

On April 8, 2010, the SEC approved the Bank's application for the increase in authorized capital stock from P6.0 billion divided into 52.5 million common shares; 7.5 million preferred shares both with the par value of P100 each, to P22.0 billion divided into P212.5 million common shares; 7.5 million preferred shares both with the par value of P100 each. The related amendment to the Articles of Incorporation of the Bank relative to its proposed increase in authorized capital stock from P6.0 billion to P22.0 billion, was approved by BSP and the SEC on March 26, 2010 and April 8, 2010, respectively.

During its meeting on January 18, 2011, the BOD of the Bank passed a resolution approving the following:

- the sale of fully paid shares of Valiant Ventures & Development Holdings, Inc. (Valiant) in the Bank to SMPI and SMCRP amounting to 2,800,000 shares and 1,972,735 shares, respectively; and

- the assignment of subscription rights of Valiant to SMPI amounting to 523,726 shares (Tranche 1) and 4,713,539 shares (Tranche 2).

In this connection, the Bank secured the approval of the MB of BSP for such sale of shares and assignment of subscription of the shares of Valiant. This is mandated in BSP's MORB since the total shareholdings of Valiant entitles it to a board seat. The Board has also agreed that the sale of shares and assignment of subscription rights be recorded in the stock and transfer book of the Bank only after the approval of the MB has been obtained.

On March 30, 2011, the MB of BSP approved the sale of shares of Valiant. In 2011, the Bank's subscribed common stock totaling 59,741,113 shares have been fully paid in accordance with the subscription agreement.

<u>Equity Restructuring</u>
On May 31, 2016, the BOD approved the Bank to undergo equity restructuring to wipe out the deficit amounting to P3,154,450,041 as at December 31, 2015 through the use of the Bank's Paid-in surplus.

On August 6, 2016, the Bank received from BSP a "No Objection" response to the Bank's application for equity restructuring with the SEC subject to the (1) Bank's compliance with the SEC's other requirements; and (2) condition that the Bank shall provide BSP a certified true copy of SEC's approval of the equity restructuring within 5 days from Bank receipt thereof.

On December 22, 2016, the Bank, through a letter dated December 14, 2016, filed an application with the SEC through the Company Registration and Monitoring Department (CRMD) requesting approval of the Equity Restructuring Plan. Upon filing with the CRMD, the Bank was advised to forward the Application to the Market and Securities Regulation Department (MSRD) for endorsement. In its letter dated December 23, 2016, the MSRD interposed no objection to the Application provided that the Bank submits a certification that it is still in compliance with certain reportorial conditions after the SEC's approval of the Application.

On February 8, 2017, the Application was reverted to the CRMD. On February 13, 2017, the SEC, through the CRMD, formally approved the equity restructuring to wipe-out the deficit as at December 31, 2015 amounting to P3.15 billion against the Paid-in surplus of P8.75 billion subject to the conditions that the remaining Paid-in surplus of P5.59 billion shall not be used to wipe-out future losses without further approval from SEC.

<u>Capital Management</u>
The Bank's capital base, comprised of capital stock, paid-in surplus, surplus reserves and revaluation increment on property, is actively being managed to cover risks inherent in the Bank's operations. In 2009, SMPI and SMCRP infused additional capital amounting to P3.3 billion in the form of paid-up common stock. On February 18, 2010 and March 1, 2010, major stockholders infused P271.9 million and P2.1 billion, respectively, into the Bank in the form of advances for future stock subscriptions, which shall be treated as part of the Bank's paid-up capital upon the SEC's approval thereon and on the increase in the Bank's authorized capital stock.

On October 29, 2014, BSP issued Circular 854 amending Subsection X111.1 of the MORB regarding the minimum capitalization requirement applicable for the Bank (commercial banks with more than 100 branches) from P2.4 billion to P15.0 billion effective November 13, 2014. Banks which comply with the new capital levels shall submit to BSP a certification to this effect within 30 calendar days from the date of the effectivity of the circular while banks which are not meeting the required minimum capital must submit to BSP an acceptable capital build-up program within 1 year from the date of effectivity of the circular.

The issuance of BSP Circular No. 639 covering the ICAAP in 2009 supplements BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Bank has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Bank. The level and structure of capital are assessed and determined in light of the Bank's business environment, plans, performance, risks and budget; as well as regulatory edicts. Pursuant to MB Resolution No. 84 dated January 14, 2015, the deadline for submission of ICAAP documents was amended from January 31 of each year to March 31 effective 2015 (BSP Circular No. 869 dated January 30, 2015).

As at December 31, 2017 and 2016, the reported unimpaired capital of P16.2 billion and P15.7 billion, respectively, exceeded the required minimum regulatory capital of P15.0 billion for commercial banks with more than 100 branches.

The Bank's overall strategy on capital management remains unchanged since prior financial year.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to BSP, which is determined on the basis of Regulatory Accounting Principles which differ from PFRSs in some respects.

The BSP sets and monitors compliance to minimum capital requirements for the Bank. In implementing current capital requirements, BSP issued Circular 538 which implemented the Revised Risk-Based Capital Adequacy Framework under Basel II effectively July 1, 2007. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk-weighted assets) of not less than 10.0%.

Under BSP Circular 538, the regulatory qualifying capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprised common stock, additional paid-in capital and surplus. Tier 2 composed upper tier 2 and lower tier 2. Upper tier 2 consists of preferred stock, revaluation increment reserve, general loan loss provision and deposit for common stock subscription. Lower tier 2 consists of the unsecured subordinated debt.

On January 15, 2013, BSP issued Circular 781 which contains the revised risk-based capital adequacy framework for the Philippine Banking system in accordance with the Basel III standards. The said Circular took effect on January 1, 2014. The following are the revised minimum capital requirements for UBs and KBs and their subsidiary banks and quasi-banks (QBs):

- 6.0% Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs)
- 7.5% Tier 1 Capital/RWAs, and
- 10.0% Total Qualifying Capital (Tier1 plus Tier2)/RWAs

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1-'going concern' [CET1 plus Additional Tier 1(ATI)] and Tier 2 -'gone concern.' A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a domestic bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer (CCB) of 2.5% of RWAs, comprised of CET1 capital, has been required of U/KBs and their subsidiary banks and quasi-banks. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in below table. Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.5% (CET Ratio of 6.0% plus conservation buffer of 2.5%) and has not complied with the minimum 10% CAR.

Level of CET 1 capital	**Restriction on Distributions**
<6.0	No distribution
6.0%-7.25%	No distribution until more than 7.25% CET1 capital is met
>7.25%-8.5%	50% of earnings may be distributed
>8.5%	No restriction on the distribution

On June 9, 2015, MB issued BSP Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio* Framework, which approved the guidelines for the implementation of the Basel III Leverage Ratio in the Philippines and designed to act as supplementary measure to the risk-based capital requirements. It is defined as the capital measure (numerator) divided by the exposure measure (denominator). The leverage ratio shall not be less than 5.0% computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

On March 10, 2016, MB approved the liquidity standards and issued BSP Circular No. 905, *Implementation of BASEL III Framework on Liquidity Standards-Liquidity Coverage Ratio (LCR) and Disclosure Standards,* The LCR is the ratio of HQLAs to total net cash outflows. Under normal situation, the value of the ratio should be no lower than 100% on a daily basis because the stock of unencumbered HQLA is intended to serve as a defense against the potential onset of liquidity stress. The compliance with the LCR minimum requirement will commence on January 01, 2018 and the prescribed minimum shall be set initially at 90% for 2018 and shall rise to the minimum level of 100% on January 01, 2019.

This applies to U/KBs as well as their subsidiary banks and quasi-banks with the framework anchored on the international standards issued by the Basel Committee on Banking Supervision known as the Basel 3 reforms.

As at December 31, 2017 and 2016, based on the CAR reports submitted to BSP, the Bank's CAR of 17.1% and 18.1%, respectively, exceeded the minimum 10.0% requirement as computed and monitored using the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios"), based on the Basel III framework.

The breakdown of the Bank's risk-weighted assets as at December 31, 2017 and 2016 as reported to BSP follows (amounts in thousands):

	2017	2016
Credit risk-weighted assets	**P80,164,083**	P65,018,000
Market-risk weighted assets	**265,875**	7,330,435
Operational risk-weighted assets	**6,912,747**	6,761,263
	P87,342,705	P79,109,698

The Bank is also required to maintain a minimum Tier 1 capital ratio of 7.5% in 2017 and 2016 (in millions) which was complied as per below:

	2017	2016
Tier 1 capital	**P14,312**	P13,843
Tier 2 capital	**643**	482
Total qualifying capital	**P14,955**	P14,325
Risk-weighted assets	**P87,343**	P79,110
Tier 1 capital ratio	**16.4%**	17.5%
Total capital ratio	**17.1%**	18.1%

Certain adjustments are made to PFRSs results and reserves to calculate CAR which included the Bank's accounting of the following transactions that require different accounting treatments under PFRSs:

a) calculation of reserves for allowance for credit losses on loans and receivables;
b) non-performing assets and operating losses of TRB capitalized as miscellaneous assets and subject to staggered allowance provisioning through offset of net yield earned from the financial assistance;
c) deferral of losses on sold NPLs to SPV Company; and
d) accounting for investment properties.

For items a, b and d, the recognition of the Bank is based on the accounting treatment approved by BSP (see Notes 11, 15, 16 and 34). For item c, the accounting treatment is based on the provisions of the SPV law.

Financial Performance
The following basic ratios measure the financial performance of the Bank:

	2017	2016
Return on average equity	**3.6%**	3.5%
Return on average assets	**0.5%**	0.5%
Net interest margin on average earning assets	**3.3%**	3.6%

24. Surplus Reserves

	2017	2016
Reserve for trust business	**P99,442,049**	P92,581,050
Reserve for self-insurance	**60,000,000**	60,000,000
	P159,442,049	P152,581,050

In compliance with existing BSP regulations, 10.0% of the Bank's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Bank's authorized capital stock.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation and other unlawful acts of the Bank's personnel or third parties.

25. Interest Income on Debt Securities

This account consists of:

	Note	**2017**	2016
Financial assets at FVPL:	*8*		
Government securities held for trading		**P14,902,334**	P29,696,887
Private debt securities held for trading		**7,169**	23,250
AFS securities:	*9*		
Quoted government securities		**428,168,321**	575,949,001
Quoted private debt securities		**59,222,004**	224,907,965
Unquoted debt securities	*11*	**-**	51,873,619
HTM investments:	*10*		
Quoted government securities		**289,987,783**	-
Quoted private debt securities		**158,572,207**	-
		P950,859,818	P882,450,722

Foreign currency-denominated financial assets at FVPL bear EIRs ranging from 2.3% to 9.9% in 2017 and from 2.8% to 9.9% in 2016. Peso-denominated financial assets at FVPL bear EIRs ranging from 3.6% to 8.1% in 2017 and 2016.

Foreign currency-denominated AFS securities bear EIRs ranging from 0.5% to 4.8% in 2017 and from 0.3% to 12.8% in 2016. Peso-denominated AFS securities bear EIRs ranging from 2.0% to 7.0% in 2017 and from 2.3% to 4.6% in 2016.

Foreign currency-denominated and peso-denominated HTM investments bear EIRs ranging from 2.0% to 3.9% and 3.9% to 6.8%, respectively, in 2017.

26. Service Charges, Fees and Commissions

This account consists of:

	2017	2016
Service charges	**P163,628,784**	P145,330,699
Trust income	**81,234,451**	68,586,939
Commitment and other loan-related charges	**55,380,619**	11,532,305
Fees and commissions	**48,947,595**	8,392,354
Credit card fees	**38,691,565**	37,021,664
Penalty charges	**37,027,014**	14,093,204
Telegraphic transfer fees	**13,051,704**	8,177,396
Letters of credit fees	**12,675,118**	11,353,977
Others	**26,088,187**	19,715,222
	P476,725,037	P324,203,760

Service charges include charges on loans and deposit taking-related activities. Others include acceptance and remittance fee.

27. Trading and Investment Securities Gains - net

This account consists of realized and unrealized gains (losses) from the following securities:

	Note	2017	2016
Financial assets and liabilities at FVPL:			
Debt securities			
Realized		**P19,517,508**	(P97,155,416)
Unrealized	*8*	**(811,909)**	86,897,122
AFS securities	*9*	**37,554,250**	352,685,478
		P56,259,849	P342,427,184

28. Employee Benefits

Retirement Plan

The Bank has a funded noncontributory defined benefit retirement plan covering its regular and permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using projected unit credit method.

The Bank's retirement benefits are based on the employee's years of service and a percentage of his gross monthly salary. An employee shall be retired and shall be entitled to full retirement benefits upon his attainment of 60 years of age.

An employee, upon reaching the age of 50 years and with the completion of no less than 10 years of service as a regular employee and with 30 days prior notice to the Bank, may retire at his option and shall be entitled to the retirement benefits.

An employee who has at least 10 years of service as a regular employee, but who has not reached the age of 50 years, may retire at his option and shall be entitled to the retirement benefits but such retirement benefit shall be subject to the pertinent requirements of the BIR.

The Bank's retirement plan is registered with the BIR as a tax-qualified plan under RA No. 4917, as amended, and complies with the minimum retirement benefit specified under RA No. 7641, the "New Retirement Law."

The retirement fund is being managed and administered by the Bank's Trust Services Division which is covered by an Investment Management Account (IMA) Agreement (agency relationship).

The date of the last actuarial valuation is December 18, 2017. Valuations are performed on an annual basis.

As at December 31, 2017 and 2016, the principal actuarial assumptions used in determining retirement benefits liability for the Bank's retirement plan are shown below:

	2017	2016
Average working life	**13.0**	13.0
Discount rate	**5.8%**	5.6%
Future salary increases	**6.6%**	6.6%

The following table shows reconciliation from the opening balances to the closing balances for net retirement benefit liability and its components (in thousands).

	Defined Benefits Obligation		Fair Value of Plan Assets		Net Retirement Benefit Liability	
	2017	2016	**2017**	2016	**2017**	2016
Balance at January 1	**P783,066**	P790,969	**(P699,030)**	(P655,583)	**P84,036**	P135,386
Included in profit or loss						
Current service cost	**84,189**	89,906	-	-	**84,189**	89,906
Interest expense (income)	**43,852**	39,548	**(39,146)**	(32,779)	**4,706**	6,769
	128,041	129,454	**(39,146)**	(32,779)	**88,895**	96,675
Included in OCI						
Remeasurement loss (gain):						
Actuarial loss (gain) arising from:						
Financial assumptions	**(19,609)**	(56,941)	**-**	-	**(19,609)**	(56,941)
Experience adjustment	**1,669**	(17,444)	**-**	-	**1,669**	(17,444)
Return on plan assets excluding interest income	**-**	-	**30,455**	6,923	**30,455**	6,923
	(17,940)	(74,385)	**30,455**	6,923	**12,515**	(67,462)
Others						
Contributions paid by the employer	**-**	-	**-**	(80,563)	**-**	(80,563)
Benefits paid	**(24,737)**	(62,972)	**24,737**	62,972	**-**	-
	(24,737)	(62,972)	**24,737**	(17,591)	**-**	(80,563)
Balance at December 31	**P868,430**	P783,066	**(P682,984)**	(P699,030)	**P185,446**	P84,036

The movements of the remeasurement losses on retirement liability of the Bank follow:

	2017	2016
Balance at beginning of year	**P164,228,770**	P231,690,806
Remeasurement losses (gains) on:		
Defined benefits obligation	**(17,940,245)**	(74,385,806)
Plan assets	**30,455,001**	6,923,770
	12,514,756	(67,462,036)
Balance at end of year	**P176,743,526**	P164,228,770

The actual return on plan assets amounted to P8.7 million and P25.9 million in 2017 and 2016, respectively.

The Bank expects to contribute P120.4 million to its defined benefits retirement plan in 2018.

The major categories of the fair value of plan assets as at December 31, 2017 and 2016 follow:

	2017	2016
AFS securities:		
Government and other debt securities	**P315,979,407**	P250,944,735
Quoted equity securities	**167,777,511**	186,054,904
Unquoted equity securities	**9,801,117**	10,393,282
Loans receivables	**142,042,107**	172,314,725
Deposits with the Bank	**32,940,073**	74,133,875
Other receivables	**14,443,350**	5,188,175
Total Plan Assets	**P682,983,565**	P699,029,696

As at December 31, 2017 and 2016, the carrying value of the plan assets of the Bank amounted to P675.9 million and P672.6 million, respectively.

Sensitivity Analysis

Reasonably possible changes to one of the relevant actuarial assumptions, with all other assumptions constant, would have affected the net retirement liability of the Bank by the amounts shown below:

	December 31, 2017			
	Discount Rate		**Salary Increase Rate**	
	+0.50%	**-0.50%**	**+0.50%**	**-0.50%**
Present value of the defined benefit obligation	**P816,303,787**	**P912,854,279**	**P909,573,077**	**P818,817,537**
Fair value of plan assets	**682,983,565**	**682,983,565**	**682,983,565**	**682,983,565**
Net retirement liability	**P133,320,222**	**P229,870,714**	**P226,589,512**	**P135,833,972**

	December 31, 2016			
	Discount Rate		Salary Increase Rate	
	+0.50%	-0.50%	+0.50%	-0.50%
Present value of the defined benefit obligation	P739,871,912	P830,102,053	P826,997,096	P742,245,936
Fair value of plan assets	699,029,696	699,029,696	699,029,696	699,029,696
Net retirement liability	P40,842,216	P131,072,357	P127,967,400	P43,216,240

The maturity analyses of the undiscounted benefit payments as at December 31, 2017 and 2016 are as follows:

	2017	2016
1 - 5 years	**P319,464,874**	P294,041,786
6 - 10 years	**516,922,281**	450,848,558
11 - 15 years	**922,061,325**	832,547,879
16 years and up	**4,011,013,118**	3,865,341,875

The defined benefit plans expose the Bank to actuarial risks, such as longevity risk, interest risk, and market (investment risk).

The overall investment policy and strategy of the retirement plan is based on the Bank's suitability assessment, as provided by its Trust Services Division, in compliance with BSP requirements.

The weighted average duration of the defined benefit obligations is equal to the expected average remaining working lives as at December 31, 2017 and 2016.

Compensation and Fringe Benefits
The details of the following accounts for the year ended December 31 follow:

	2017	2016
Salaries and allowances	**P777,246,524**	P740,030,450
Employee benefits	**288,793,368**	266,982,972
Bonuses	**206,748,204**	249,314,702
Retirement	**88,894,983**	99,144,257
Overtime	**27,579,309**	26,130,931
	P1,389,262,388	P1,381,603,312

29. Lease Contracts

Bank as Lessee
The Bank leases the premises occupied by most of its branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable upon mutual agreement between the Bank and the lessors. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 3.0% to 15.0%. Rent expense charged against current operations (included under “Rent and utilities” account in the statements of income) amounted to P298.0 million and P302.8 million in 2017 and 2016, respectively.

There are no contingent rentals and restrictions imposed by lease arrangements as at December 31, 2017 and 2016.

Future minimum rentals payable under non-cancellable operating leases follows (amounts in millions):

	2017	2016
Within 1 year	**P162.7**	P193.4
After 1 year but not more than 5 years	**308.1**	362.9
After 5 years	**71.7**	108.9

Bank as Lessor
The Bank entered into commercial property leases for office space. These non-cancellable leases have remaining lease terms ranging from 2 to 3 years. As at December 31, 2017 and 2016, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to P4.6 million and P5.5 million in 2017 and 2016, respectively, are shown under “Miscellaneous” in the “Other income” account in the statements of income.

Future minimum rentals receivable under non-cancellable operating leases follows (amounts in millions):

	2017	2016
Within 1 year	**P1.2**	P5.8
After 1 year but not more than 5 years	**1.6**	5.1

30. Miscellaneous Expenses

	Note	2017	2016
Service fees and commissions		**P72,012,936**	P37,300,997
Litigation and acquired assets-related expenses	*15*	**67,178,048**	56,602,376
Messengerial services		**56,458,708**	65,731,229
Loss on settlement on PEACe bonds	*16*	**53,964,703**	-
Marketing		**52,528,838**	38,577,817
Communications		**46,891,960**	40,846,678
Supervision and examination fee		**39,011,421**	34,029,438
Forms and supplies		**36,555,879**	25,500,493
Fines and penalties		**25,613,444**	30,759,131
Transportation and travel		**13,574,594**	12,228,075
Others		**89,064,061**	5,641,868
		P552,854,592	P347,218,102

Others include management fee on deposits, subscription fee and membership dues.

31. Income and Other Taxes

Income and other taxes are comprised of RBU and FCDU taxes which are discussed as follows:

Regular Banking Unit
Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented under “Taxes and licenses” account in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes.

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from GS and other deposit substitutes.

The corporate income tax rate is 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.0% of interest income subjected to final tax.

The regulations also provide for MCIT of 2.0% on modified gross income and allow NOLCO. The MCIT and NOLCO may be applied against the Bank’s income tax liability and taxable income, respectively, over a 3-year period from the year of incurrence.

In addition, Revenue Regulations (RR) No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. Nondeductible EAR expenses amounted to P53.6 million in 2017 and P114.6 million in 2016. EAR expense is included under “Entertainment, amusement and recreation” account in the statements of income.

In 2011, the BIR issued RR 4-2011, *Proper allocation of costs and expenses amongst income earning of banks and other financial institutions for income tax reporting purposes*, which requires banks to allocate and claim as deduction only those costs and expenses attributable to RBU to arrive at the taxable income of the RBU subject to regular income tax. Any cost or expense related with or incurred for the operations FCDU are not allowed as deduction from the RBU's taxable income. In computing for the amount allowable as deduction from RBU operations, all costs and expenses should be allocated between the RBU and FCDU by specific identification and by allocation.

Foreign Currency Deposit Unit
RA No. 9294, the existing applicable tax regulation governing the taxation of FCDU provides, among others, the following:

- Offshore income or the income derived by FCDUs from foreign currency transactions with nonresidents, Offshore Banking Units (OBUs) in the Philippines, local commercial banks including branches of foreign banks that may be authorized by BSP to transact business with FCDUs and other depository banks under the foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the MB to be subject to the regular income tax payable by banks.

- Gross onshore income or interest income from foreign currency loans granted by FCDUs to residents through offshore units in the Philippines or other depository banks under the expanded system shall be subject to final tax at a rate of 10.0%; and

- Interest income derived by resident individual or corporation on deposits with FCDUs and OBUs are subject to 7.5% final tax.

  Effective January 1, 2018, the final tax rate on interest income from a depository bank under the expanded foreign currency deposit system is amended from 7.5% to 15.0% under the Republic Act No. 10963 commonly known as the Tax Reform for Acceleration and Inclusion (TRAIN) Law.

Income tax expense consists of:

	2017	2016
Current:		
Final	**P243,315,219**	P230,233,339
MCIT	**53,578,087**	45,683,810
RCIT	**1,303,000**	5,212,289
	298,196,306	281,129,438
Deferred	**79,494,107**	26,150,618
	P377,690,413	P307,280,056

The amount of deferred tax income relates to the origination and reversal of temporary differences.

The reconciliation of the income tax expense computed at the statutory tax rate to the effective income tax shown in the statements of income follows:

	2017	2016
Income before income tax	**P1,003,607,573**	P917,678,052
Income tax at statutory rate	**P301,082,272**	P275,303,416
Additions to (reductions in) income taxes resulting from the tax effects of:		
Nondeductible expenses	**230,390,965**	223,896,092
Changes in unrecognized deferred tax assets	**(123,372,672)**	(93,019,929)
Tax paid income	**(114,873,639)**	(109,530,913)
FCDU income	**(26,950,671)**	(53,108,642)
Nontaxable income	**(13,912,461)**	(44,069,445)
Others	**125,326,619**	107,809,477
Effective income tax	**P377,690,413**	P307,280,056

The components of net deferred tax assets and deferred tax liabilities in the statements of financial position follow:

	Beginning Balance (2016 Tax Effect)	Amount (Charged) Credited to Profit or Loss	Amount Recognized in OCI	Ending Balance (2017 Tax Effect)
Deferred tax asset:				
Allowance for credit and impairment losses	P1,000,201,680	P -	P -	P1,000,201,680
Unrealized loss on foreclosed properties	45,655,091	(2,360,649)	-	43,294,442
Accrued rent expense	21,618,266	(3,512,301)	-	18,105,965
Retirement benefits	-	2,610,813	-	2,610,813
Other accrued expenses	91,385,208	(5,281,193)	-	86,104,015
	1,158,860,245	(8,543,330)	-	1,150,316,915
Deferred tax liability:				
Unrealized gain on foreclosed properties	(713,932,581)	(80,403,687)	-	(794,336,268)
Revaluation increment on property and equipment and investment properties	(191,636,459)	22,345,261	19,229,974	(150,061,224)
Gain on investment properties sold under installments	(37,855,393)	(22,774,094)	-	(60,629,487)
Retirement benefits	(24,057,682)	24,057,682	-	-
Unrealized foreign exchange gain	(22,538,444)	(14,526,464)	-	(37,064,908)
Valuation gain on derivatives and financial assets carried at FVPL	(350,525)	350,525	-	-
	(990,371,084)	(70,950,777)	19,229,974	(1,042,091,887)
Net Deferred Tax Assets	P168,489,161	(P79,494,107)	P19,229,974	P108,225,028

Management believes that certain future deductible items may not be realized in the near foreseeable future as future taxable income may not be sufficient for the related tax benefits to be realized. Accordingly, the Bank did not set up deferred tax assets on the following temporary differences and carry forward benefits of NOLCO and MCIT:

	2017		2016	
	Deductible Temporary Differences	**Deferred Tax Asset**	Deductible Temporary Differences	Deferred Tax Asset
Allowance for credit and impairment losses	**P1,818,594,090**	**P545,578,227**	P1,898,049,096	P569,414,729
NOLCO	**216,116,007**	**64,834,802**	575,877,406	172,763,222
MCIT	**139,567,352**	**139,567,352**	127,882,350	127,882,350
Unrealized loss on financial assets at FVPL	**1,595**	**479**	-	-
Others	**138,489,621**	**41,546,886**	149,467,057	44,840,117
Deferred tax items not recognized in profit or loss	**2,312,768,665**	**791,527,746**	2,751,275,909	914,900,418
Remeasurement losses on retirement liability	**176,743,526**	**53,023,058**	164,228,770	49,268,631
Unrealized loss on AFS securities	**45,965,509**	**13,789,653**	25,373,530	7,612,059
Deferred tax items not recognized in OCI	**222,709,035**	**66,812,711**	189,602,300	56,880,690
	P2,535,477,700	**P858,340,457**	P2,940,878,209	P971,781,108

Details of the Bank's RBU NOLCO and MCIT as at December 31, 2016 follow:

NOLCO

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2014	P359,761,397	(P359,761,397)	P -	2017
2015	198,213,009	-	198,213,009	2018
2016	17,903,000	-	17,903,000	2019
	P575,877,406	(P359,761,397)	P216,116,009	

Out of the P359.8 million NOLCO from 2014, P118.1 million was used to offset the Bank's taxable income while the remaining balance expired in 2017.

MCIT

Inception Year	Amount	Expired	Balance	Expiry Year
2014	P41,893,085	(P41,893,085)	P -	2017
2015	40,305,455	-	40,305,455	2018
2016	45,683,810	-	45,683,810	2019
2017	53,578,087	-	53,578,087	2020
	P181,460,437	(P41,893,085)	P139,567,352	

32. Commitments and Contingencies

In the normal course of operations, the Bank makes various commitments, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingencies at their peso equivalent contractual amounts arising from off-books accounts as at December 31, 2017 and 2016:

		2017	2016
Contingent assets:			
Future/spot exchange bought		**P467,694,759**	P299,407,128
Fixed income securities purchased		**51,273,423**	-
Outward bills for collection		**39,680**	1,040,840
		P519,007,862	P300,447,968
Commitments and contingent liabilities:			
Trust department accounts	*33*	**P24,681,431,305**	P22,964,556,910
Committed credit line	*34*	**3,379,677,419**	4,601,667,315
Credit card lines		**1,316,628,264**	933,430,502
Outstanding guarantees		**1,084,782,041**	1,582,713,394
Future/spot exchange sold		**1,066,849,174**	647,421,250
Unused commercial letters of credit		**835,697,160**	297,050,492
Late deposits/payments received		**38,047,439**	159,765,207
Inward Bills For Collection-Domestic		**2,024,390**	-
Fixed income securities sold		**461,743**	-
Items held for safekeeping/securities held as collateral		**38,552**	385,986
		P32,405,637,487	P31,186,991,056

The Bank has several loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial impact of these contingencies. However, in the opinion of management, in consultation with its legal counsels, the suits and claims, if decided adversely, will not involve sums having a material effect on the Bank's financial statements.

Other Commitments

The assets pledged by the Bank are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified in the statements of financial position as pledged collateral. The pledged assets will be returned to the Bank when the underlying transaction is terminated but, in the event of the Bank's default, the counterparty is entitled to apply the collateral in order to settle the liability.

As at December 31, 2017 and 2016, no asset is being pledged by the Bank to secure outstanding liabilities.

33. Trust Assets

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank (see Note 32). Total assets held by the Bank's Trust Services Division amounted to P24.7 billion and P23.0 billion as at December 31, 2017 (unaudited) and 2016, respectively.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions, GS with a face value of P272.0 million, which have been included under "AFS securities" (see Note 9), are deposited with BSP in 2017 and 2016.

34. 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. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

The Bank has various transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI). These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Bank, transactions with related parties are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current banking regulations, the amount of individual loans to DOSRI, of which 70.0% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15.0% of the total loan portfolio. On March 15, 2004, BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts which was further amended by BSP Circular 914 on June 23, 2016.

The following table shows information relating to DOSRI loans:

	2017	2016
Total outstanding DOSRI loans	**P2,915,375**	P3,826,247
Percent of DOSRI loans to total loans	**0.00%**	0.01%
Percent of unsecured DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of past due DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of non-performing DOSRI loans to total DOSRI loans	**Nil**	Nil

On June 23, 2016, BSP Circular No. 914, *Amendments to Prudential Policy on Loans, Other Credit Accommodations, and Guarantees Granted to Directors, Officers, Stockholders, and their Related Interests (DOSRI), Subsidiaries and Affiliates,* was issued providing the rules and revised regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the bank's affiliates shall not exceed 10.0% of bank's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank. BSP Circular 914 took effect on July 14, 2016.

The details of significant related party transactions of the Bank follow (amounts in thousands):

Category	*Note*	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Associate				
2017				
Investment in associate	*13*	**P -**	**P46,150**	24.25% equity interests in BIC which is a stockholder of the Bank
Share in net loss of associate	*13*	**1,800**	**-**	Share in net loss of BIC
2016				
Investment in associate	*13*	-	48,265	24.25% equity interests in BIC which is a stockholder of the Bank
Share in net loss of associate	*13*	1,410	-	Share in net loss of BIC

Unless otherwise stated, RPTs disclosed are unsecured.

Category	Note	December 31, 2017 Amount/ Volume	December 31, 2017 Outstanding Balance	December 31, 2016 Amount/ Volume	December 31, 2016 Outstanding Balance	Nature, Terms and Conditions
Other related parties						
AFS securities:	*9*					
Unquoted equity securities		**P -**	**P18,836**	P -	P16,362	8.57% equity interest in BANGE
Quoted debt securities		**42,410**	**881,951**	-	2,951,251	Short-term and long-term bonds with interest rates ranging from 4.0% to 6.6% with maturity years ranging from 2017 to 2025
HTM investments	*10*	**-**	**1,915,228**	-	-	Long-term bonds with interest rates ranging from 4.0% to 6.5% with maturity years ranging from 2020 to 2025.
Loans and receivables - net:	*11*					
Receivable from customers			**25,232,710**		22,228,933	Term loans with interest rates ranging from 2.8% to 9.1% and with maturity of less than 1 year to 15 years; Collateral includes unregistered chattel mortgage, assignment of contract and concession agreement, mortgage trust indenture and pledge agreement on shares;
Availments		**P65,711,059**	**-**	P43,430,535	-	
Settlements		**62,533,005**	**-**	43,500,558	-	
Sales contract receivables		**-**	**34,766**	-	3,826	Sales contract receivables with annual interest of 6.3% and 10.5%, respectively and with maturity of 1 year and 5 years, respectively
Availments		**63,406**	**-**	-	-	
Settlements		**32,467**	**-**	855	-	
Accrued interest receivable		**1,682,659**	**279,291**	1,207,448	209,284	Interest income and accrued interest receivables;
Deposit liabilities	*18*	**-**	**25,707,440**	-	22,752,220	Consists of current, savings and time deposits which earn interest at the respective bank deposit rates
Deposits		**4,537,753,260**	**-**	4,530,150,856	-	
Withdrawals		**3,285,163,490**	**-**	3,301,859,783	-	
Accrued interest and other expenses:	*20*					Interest expense and accrued interest payable and other expenses payable include accruals for rent and utilities; On demand, unsecured and non-interest bearing.
Accrued interest payable		**109,094**	**5,055**	107,982	5,806	
Accrued other expenses payable		**127,369**	**1,213**	119,594	7,147	
Other liabilities	*21*	**-**	**1,964**	-	1,044	Consists of accounts payable to Bank's officers; On demand, unsecured and non-interest bearing.
Gain on sale of foreclosed assets	*15*	**96,261**	**-**	-	-	Gain from the cash sale transactions of foreclosed properties
Service fees and commissions	*26*	**49,118**	**-**	17,975	-	Loan and investment-related fees and commission
Miscellaneous income	*9*	**8,930**	**-**	4,538	-	Dividend received from BANGE
Management and professional fees		**33,000**	**-**	26,812	-	Professional fees for assistance in tax assessment and per diem of Directors
Commitments and contingent liabilities	*32*	**-**	**4,782,190**	-	6,355,986	Undrawn committed credit line, bank guarantees in favor of related party and outstanding sight import letters of credit

Unless otherwise stated, RPTs disclosed are unsecured.

As at December 31, 2017 and 2016, outstanding bills purchased of related parties with contra account in "Miscellaneous liabilities" amounted to P1.2 billion and P0.9 billion, respectively (see Notes 11 and 21).

Other related parties are companies linked directly or indirectly to the Bank through one or more intermediaries or are members of the same group, is controlled by, is under the same significant influence, or is under common control with the Bank.

The related party transactions shall be settled in cash. The outstanding balances of related party transactions, except for investment in associate (see Note 13), are not impaired as at December 31, 2017 and 2016.

Transactions with Retirement Plans

The Bank's retirement plan is managed and administered by the Bank's Trust Services Division which is covered by an IMA Agreement (agency relationship). The carrying values of the plan per the Trustee Financial Statements amounted to P675.9 million and P672.6 million as at December 31, 2017 and 2016, respectively. The fair values of the plan per the Independent Actuarial Report amounted to P683.0 million and P699.0 million as at December 31, 2017 and 2016, respectively (see Note 28).

Related information on assets/liabilities and income/expense of the funds as at and for the years ended December 31, 2017 (unaudited) and 2016 (audited) follow:

	2017	2016
AFS securities:		
Government and other debt securities	**P312,697,602**	P241,443,053
Quoted equity securities	**166,034,952**	179,039,844
Unquoted equity securities	**9,699,322**	10,001,411
Deposits with the Bank	**32,597,952**	71,338,714
Receivables	**154,860,178**	170,810,286
Total Plan Assets	**675,890,006**	P672,633,308
Trust fee payable	**P431,023**	P799,354
Other liabilities	**400**	1,800
Total Plan Liabilities	**P431,423**	P801,154

Plan Income	**2017**	2016
Interest income	**P17,130,655**	P16,761,279
Dividend income and others	**21,718,072**	10,475,853
	P38,848,727	P27,237,132
Plan Expense		
Trust fees	**P1,563,075**	P1,627,774
Reversal of probable losses on equity securities	**(255,059)**	(434,959)
Other expenses	**901,138**	158,110
	P2,209,154	P1,350,925

As at December 31, 2017 and 2016, the retirement plan assets of the Bank include 73,067 shares of the Bank classified under AFS equity securities. The allowance for probable losses on the retirement plan's shares of the Bank amounted to P12.4 million and P12.0 million as at December 31, 2017 and 2016, respectively. Limitations and restrictions are covered by the IMA Agreement and anything outside the IMA Agreement must be explicitly authorized by the Board of Trustees (BOT).

As at December 31, 2016, receivables include accrued interest on deposit with the Bank amounting to P93,347. Interest income on deposit with the Bank amounted to P21,200 and P68,139 as at December 31, 2017 and 2016, respectively. Investments are subject to the limitations of the agreement and all other actions pertaining to the fund are to be executed only upon explicit authority by the BOT of the fund.

As at December 31, 2017 and 2016, the Bank's contribution to its defined benefits retirement plan amounted to nil and P80.6 million, respectively. Benefits paid out of the Bank's plan assets amounted to P24.7 million and P63.0 million in 2017 and 2016, respectively (see Note 28).

Compensation of Key Management Personnel of the Bank
The remuneration of directors and other members of key management included in the "Compensation and fringe benefits" account in the statements of income for the years ended December 31, 2017 and 2016 follows:

	2017	2016
Short-term employee benefits	**P411,679,683**	P447,324,581
Post-employment benefits	**25,779,545**	31,726,162
	P437,459,228	P479,050,743

35. Acquisition of Selected Assets and Assumption of Certain Liabilities of TRB

A summary of the significant transactions related to the PSA entered into by the Bank with TRB on November 9, 2001 follows:

a. TRB sold and transferred, in favor of the Bank, identified recorded assets owned by TRB both real and personal, or in which TRB has title or interest, and which are included and deemed part of the assets listed and referred to in TRB's Consolidated Statement of Condition (CSOC) as at August 31, 2001. The said assets are inclusive of the banking goodwill of TRB, bank premises, licenses to operate its head office and branches, leasehold rights and patents used in connection with its business or products. In consideration of the sale of identified recorded assets, the Bank assumed identified recorded TRB liabilities including contingent liabilities as listed and referred to in its CSOC as at August 31, 2001. The liabilities assumed do not include the liability for the payment of compensation, retirement pay, separation benefits and any labor benefits whatsoever arising from, incidental to, or connected with employment in, or rendition of employee services to TRB, whether permanent, regular, temporary, casual or contractual and items in litigation, both actual and prospective, against TRB.

b. The Bank is allowed to avail of certain BSP incentives including but not limited to the following: (a) full waiver of the liquidated damages on the emergency loan of TRB and penalties related to reserve deficiencies and all other outstanding penalties at the time of acquisition may be paid over a period of 1 year, (b) relocation of branches shall be allowed within 1 year from the date of BSP approval of the PSA. Relocation shall be allowed in accordance with BSP Circular No. 293. The 90-day notice requirement on branch relocation has been waived, and (c) availment of rediscounting facility window subject to present BSP regulations.

c. The Bank paid the outstanding emergency advances owed by TRB to BSP originally amounting to P2.4 billion through dacion en pago with mandatory buy-back agreement of certain assets of the Bank and TRB at a price set at 80.0% of the appraised value of those assets (see discussions on Settlement of Liabilities of TRB below).

d. The Bank arranged with PDIC a liquidity facility for the first year following the effectivity date in the amount not to exceed 10.0% of the assumed deposit liabilities of TRB to service unanticipated withdrawals by TRB depositors, subject to terms and conditions as may be imposed by PDIC.

Settlement of Liabilities of TRB

Part of the liabilities of TRB assumed by the Bank includes P2.4 billion emergency advances from BSP. As settlement for the emergency advances, a dacion en pago with mandatory buy-back agreement involving certain bank premises and ROPA (with a dacion price equivalent to 80.0% of the average appraised value of the dacion properties) was executed. The dacion en pago with mandatory buy-back agreement contained the following significant terms and conditions:

a. The Bank may repurchase the bank premises and ROPA within 10 years from the execution of the agreement.

b. The buy-back price for the ROPA is the dacion price plus, if applicable, real estate taxes paid by BSP. The buy-back price for the bank premises used in operations shall be the dacion price plus 6.0% simple interest per annum plus 50.0% of rental rates based on prevailing rates in the locality as mutually agreed by the parties with a 4.3% yearly increment.

c. Any gain on sale of the dacion properties within the 10-year holding period, in excess or over the buy-back price, net of any taxes paid related to the sale, shall be shared 70-30 between the Bank and BSP, respectively.

   As approved by BSP, properties of the Bank and TRB with net book value amounting to P2.3 billion fully settled the liabilities to BSP assumed by the Bank from TRB amounting to P2.4 billion at the time of dacion; the difference amounting to P102.0 million was credited to other deferred credits (ODC) account. Expenses incurred related to the dacion of properties were offset against ODC.

   The Bank fully settled its emergency loan with BSP in June 2012 through cash settlement and permanent transfer of dacioned properties.

FAA

The summary of significant transactions related to the FAA entered into by the Bank with the PDIC, for acting as a “White Knight” by agreeing to the terms and conditions of the PSA with TRB, follows:

a. The PDIC granted the Bank a loan amounting to P1.8 billion representing the amount of insured deposits of TRB as at June 30, 2001, which should have been paid by PDIC under a closure scenario. The proceeds of the loan were used to purchase a 20-year GS with a coupon rate of 15.0% per annum to be pledged as collateral for the loan. Yield on the 20-year GS (net of 20.0% withholding tax and the 3.0% interest to be paid on the loan from PDIC) shall be used to offset on a staggered basis, for prudential reporting purposes, against TRB’s unbooked valuation reserves on NPAs with a total face value of P4.5 billion, which was approved by BSP to be booked as “Miscellaneous assets”. Pursuant to the requirements of PFRS, the impairment losses on the NPAs amounting to P4.4 billion as at December 31, 2017 and 2016 were charged in full in the period incurred (see Note 16).

On November 29, 2013, the Bank fully settled its loan from PDIC amounting to P1.8 billion.

b. The Bank infused additional fresh capital amounting to P200.0 million in 2001 and commits to infuse additional capital in the event a shortfall in order to comply with BSP's pertinent regulations on minimum capital requirement.

c. The Bank agrees to comply with certain regulatory requirements, to provide information as required by the PDIC, to pursue realization of performance targets based on the financial plan, to secure PDIC's written consent for the appointment of an external auditor, and to entitle PDIC to appoint a consultant.

d. The Bank shall not, among others, without the prior written consent of PDIC, grant new DOSRI loans, make any single major or significant total capital expenditures within 5 years as defined in the FAA, establish new banking offices or branches, dispose all or substantial portion of its assets except in the ordinary course of business, declare or pay cash dividends, effect any profit sharing or distribution of bonuses to directors and officers of the Bank not in accordance with the financial plan and other transactions or activities not in accordance with the financial plan.

   On September 22, 2009, the Bank and PDIC signed a Supplemental Agreement to the 2002 FAA with the following additional terms:

   - To the extent and in the context relevant to the terms of the FAA, PDIC hereby agrees to a limited adjustment of TRB's unbooked valuation reserves/deferred charges/accumulated operating losses, so as to include operating losses accumulated from the period October 2001 to July 2002 in the amount of P596.0 million which shall bring TRB's total unbooked valuation reserves, deferred charges and accumulated operating losses to P4.5 billion;

   - Extension of the FAA for such limited period as shall exactly be sufficient to fully set off on staggered basis the MA-TRB against the net yield of the new series 20-year GS to be purchased to replace the maturing GS in March 2022 and likewise to be pledged to PDIC; and

   - Income resulting from the difference between the dacion price and book value of the assets as collateral to BSP, if any, as well as future collections derived by the Bank from NPLs covered by the unbooked valuation reserves shall be deducted from the above amount of P4.5 billion. Such set-off shall be formally and officially reported by BSP to PDIC.

The foregoing Supplemental Agreement did not constitute a significant modification of the terms of the PDIC's below-market loan to the Bank. Had the modification been significant, it would have resulted to the derecognition of the old liability and the recognition of the new liability at its fair value.

In addition, as part of the PSA, there were transactions allowed and approved by BSP, which required different treatment under PFRSs. These transactions and their effects are described below:

Assumption of NPAs of TRB

In addition to the provisions of FAA and subsequent to the approval by BSP and PDIC to recognize NPAs of P144.2 million as miscellaneous assets, the Bank negotiated with BSP and PDIC to include as miscellaneous assets the additional operating losses of TRB amounting to P595.6 million incurred during the transition period of the Bank's assumption of TRB's assets and liabilities. As at December 31, 2002, a portion of the additional operating losses of TRB amounting to P227.2 million was approved by BSP and PDIC to be included as additional miscellaneous assets. On April 28, 2003, BSP approved the deferral of operating losses amounting to P596.4 million (instead of P595.6 million which was previously negotiated by the Bank and P227.2 million which was previously approved by BSP) thereby increasing the TRB-related bookings to miscellaneous assets to P4.5 billion (see Note 16). NPL included under miscellaneous assets comprised TRB's loans amounting to P3.1 billion as at August 31, 2001 which is excluded in the determination of financial ratios, provisioning and computation of CAR based on the agreed term sheet. Also, BSP considered these miscellaneous assets as non-risk assets and are not subject to classification.

Pursuant to the requirements of PFRS, the impairment losses on the NPAs amounting to P4.4 billion as at December 31, 2017 and 2016 were charged in full in the period incurred (see Note 16).

For its separate prudential reporting to BSP, the Bank continues to recognize the P4.4 billion impairment losses on a staggered basis as provided under MB No. 1950 (see Note 16).

36. Notes to Statements of Cash Flows

The following is a summary of noncash activities of the Bank:

	2017	2016
Noncash investing activities:		
Reclassification of AFS securities to HTM investments	**P9,633,323,011**	P -
Settlement of PEACe Bonds	**707,530,000**	-
Reclassification of AFS securities to Unquoted debt securities included under Loans and receivables	-	773,136,455
Additions to investment properties and other properties acquired in settlement of loans	**393,449,225**	443,914,994
Increase in sales contract receivables from sale of property and equipment, investment properties and non-current assets held for sale	**762,023,950**	140,757,060

The following table shows the reconciliation analysis of liabilities arising from financing liabilities for period ended December 31, 2017:

Beginning balance		P484,385
Cash flows during the year		
Proceeds	1,950,000,000	
Settlements	(1,950,217,177)	(217,177)
Non-cash movement		
Foreign exchange movement		-
Ending balance		P267,208

As allowed by PAS 7, short-term borrowings from local banks amounting to P1.95 billion in 2017 and P1.7 billion in 2016 are presented in statements of cash flows on a net basis.

37. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

The Bureau of Internal Revenue (BIR) has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to financial statements. The Bank reported and/or paid the following types of taxes for the year:

A. Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and Licenses' account in the Bank's statement of income.

Details of taxes and licenses for the year consist of the following:

Documentary stamp tax	**P218,978,570**
Gross receipts tax	**202,131,882**
License and permit fees	**22,850,316**
Real estate taxes	**18,417,916**
Fringe benefits	**6,396,172**
Capital gains tax	**1,310,884**
Transfer taxes	**857,376**
Others	**21,280,198**
	P492,223,314

B. Withholding Tax Remittances to BIR

As withholding agent, the Bank remitted the following withheld taxes during the year:

Tax on compensation and benefits	**P220,035,569**
Final withholding taxes	**184,188,116**
Expanded withholding taxes	**53,824,914**
	P458,048,599

C. Deficiency Tax Assessments

Period Covered	**Amount***
2003	**P3,095,735**

**Amount of deficiency tax assessments, whether protested or not.*

Management, in consultation with its legal counsels, believes that the deficiency tax assessment above is without legal basis. Accordingly, the Bank has filed abatement on January 27, 2006 for the closure of the case. The said abatement is pending decision by the BIR.

D. Tax Cases

As at December 31, 2017, the Bank has no outstanding tax cases and assessments.

SENIOR Officers

Roberto C. Benares
President & CEO
Office of the President

EXECUTIVE VICE PRESIDENT

Felipe Martin F. Timbol
Group Head
Treasury Management Group

SENIOR VICE PRESIDENTS

Edwin T. Amahan
Group Head
Branch Banking Group

Rafael C. Bueno, Jr.
Group Head
Corporate Banking Group II

Manuel A. Castañeda III
Group Head
Corporate Banking Group I

Anna Marie A. Cruz
Division Head
Product Development, Marketing Services & Credit Card Division

Reginald C. Nery
Chief Audit Executive
Internal Audit Division

Paul John T. Reyes
Division Head & Chief Dealer
TMG-Foreign Exchange Trading Division

Jay S. Velasco
Group Head
Operations Group

Edward Dennis J. Zshornack
Group Head / Officer-in-Charge
Executive Support Group concurrent Finance and Controllership Group

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Division Head
CBG I-Cash Management and Digital Channels Division

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Division Head
BBG-Metro Manila Division I

Alfredo J. Bautista
Division Head
Corporate Planning Division concurrent ESG-Business Systems & General Services Division

Danielyn P. Casaul
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Ma. Eleanor Christina S. Castañeda
Division Head
CoG-Consumer Loans Division-Organic Channels

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Human Resource Management & Development Division

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Division Head
CBG II-Corporate Banking IV Division

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Chief Information Officer
ESG-Information Technology Services Division

Jose Mari M. Zerna
Group Head
Consumer Group

VICE PRESIDENTS

Morena V. Abadilla
Division Head
OG-International Operations Division

Sheilah R. Apostol
Division Head
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PDMSCCD-Credit Card Sales & Marketing Department

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George E. Consul
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Maria Ana P. Dela Paz
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Credit Group

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BBG-BOD-Branch Operations Control Center

Noel R. Godoy
Division Head
CoG-Consumer Credit Division

Marlene P. Ignacio
Division Head
CBG-Corporate Banking III Division

Jocelyn Isabel S. Legaspi
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LSD-Operations Department

Ma. Isabel D. Lipana
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BBG-Luzon Division

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Chief Compliance Officer
Compliance Division

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ESG-Acquired Assets Division

Marlo D. Montelibano
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Aiveth D. Yuseco
Department Head
CBG-I-CMDCD-Cash Management Products Department

ASSISTANT VICE PRESIDENTS

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Branch Head
BBG-MMD II-MA-Ayala Branch

Cristina T. Ang Dy Pay
Branch Head
BBG-MMD I-QCA-Del Monte Branch

Rommelwin M. Ardidon
Department Head
RMD-IT Risk Management Department

Lourdes V. Arriola
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BBG-MMD I-MMNA Malabon I Branch

Joie Zendel A. Bacar
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BBG-MMD II-MMEA-Main Office Branch

Liberty A. Balgemino
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OG-Loan Operations Division

Rowel H. Bijasa
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OG-Centralized Operations Support Division

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Security Department

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Branch Head
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Department Head
TMG-FITD-US Treasury Trading Department

Peter M. Co
Branch Head
BBG-MMD II-MA-Pasong Tamo Ext. Branch

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HRMDD-Learning & Development, Employee & Labor Relations Department

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CPD-MIS/Budget Department

Marian G. De Los Reyes
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CERD-Credit Evaluation Department

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OG-Electronic Banking & Card Support Division

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IAD-IT Audit Department

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BBG-MMD I-MPA-Soler Branch

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Rizaldy D. Tolentino
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ESG-ITSD-AISD-Applications Interface Section

Wilson C. Vinoya
Department Head
LSD-Litigation Department

Cherry Anne G. Yap
Area Head
BBG-LD-North Luzon Area

(As of December 31, 2017)

BRANCH / ATM Directory

METRO MANILA	ATMS	BRANCHES
Caloocan	4	2
Las Piñas City	3	1
Makati City	13	11
Malabon	2	2
Mandaluyong City	8	2
Manila	20	12
Marikina	5	3
Muntinlupa	4	1
Parañaque	4	3
Pasay City	7	4
Pasig City	7	2
Quezon City	26	15
San Juan	1	1
Taguig	6	2
Valenzuela	3	1
LUZON		
Albay	2	1
Baguio	3	1
Bataan	3	1
Batangas	7	4
Bulacan	5	4
Cagayan	2	1
Camarines Sur	1	1
Cavite	4	2
Ilocos Norte	1	1
Ilocos Sur	4	2
Isabela	2	2
La Union	4	1
Laguna	13	3
Nueva Ecija	1	1
Oriental Mindoro	1	1
Palawan	1	1
Pampanga	13	5
Pangasinan	6	3
Quezon	1	1
Rizal	4	1
Tarlac	1	1
Zambales	6	3
VISAYAS		
Aklan	3	1
Bohol	1	1
Capiz	1	1
Cebu	13	7
Iloilo	6	4
Leyte	2	2
Negros Occidental	7	4
Negros Oriental	1	1
MINDANAO		
Agusan Del Norte	3	1
Bukidnon	2	1
Davao Del Norte	1	1
Davao Del Sur	5	3
General Santos	2	1
Lanao Del Norte	1	1
Misamis Oriental	1	3
Zamboanga	5	1
GRAND TOTAL	252	136

METRO MANILA

ATM AVAILABLE

MAKATI AREA

AYALA (ATM)
G/F IAcademy Bldg.,
6764 Ayala Ave., Makati City
219-0255 / 810-0651 (Fax)

BEL-AIR PETRON (ATM)
No. 363 Sen. Gil Puyat Avenue,
Brgy. Bel-Air, Makati City
898-2309 / 219-0279 /
896-7085 (Fax)

BONIFACIO HIGH STREET (ATM)
G/F Active Fun Bldg.,
9th Ave. cor. 28th St.,
Fort Bonifacio, Taguig City
779-8023 / 957-9320 /
779-8024 (Fax)

DELA COSTA-ALFARO (ATM)
G/F #100 Don Chua Lamko
Building, H.V. Dela Costa cor.
Leviste Sts., Salcedo Village,
Makati City
840-2789 / 261-0762 /
840-2719 (Fax)

DELA ROSA (ATM)
G/F King's Court II Building,
2129 Chino Roces Ave. cor. Dela
Rosa St., Makati City
831-7156 / 831-7155 (Fax)

FORT BONIFACIO GLOBAL CITY (ATM)
G/F Kensington Place,
Burgos Circle,
Fort Bonifacio, Taguig City
856-1707 / 219-0107 /
856-1696 (Fax)

JUPITER (ATM)
64/66 Jupiter St., Brgy.
Bel-Air, Makati City
828-4397 / 219-0258 /
869-8812 (Fax)

MAGALLANES (ATM)
G/F Tritan Plaza Bldg.,
Paseo de Magallanes,
Makati City
851-1424 / 219-0153 /
854-9611 (Fax)

MAKATI AVENUE-ZUELLIG (ATM)
Unit 2, G/F Zuellig Bldg. Makati
Ave. cor. Paseo de Roxas and Sta.
Potenciana Sts., Makati City
961-7628 / 219-0127 /
961-8364 (Fax)

PASAY ROAD (ATM)
1006 Cedar Executive Building A.
Arnaiz Ave. (Pasay Road),
San Lorenzo Village, Makati City
840-5612 / 219-0261 /
576-5035 / 840-5640 (Fax)

PASONG TAMO EXTENSION (ATM)
2295 OPVI Centre, Pasong Tamo
Extension, Magallanes, Makati City
892-9700 / 219-0271 /
817-9300 (Fax)

ROCKWELL
P1 Concourse Level,
The Power Plant Mall,
Rockwell Center, Makati City
898-1523 / 219-0114 /
898-1522 (Fax)

SALCEDO (ATM)
G/F Aguirre Bldg.,
Tordesillas cor.
H.V. Dela Costa St.,
Salcedo Village, Makati City
813-2220 / 813-2734 (Fax)

METRO MANILA NORTH AREA

BALIUAG (ATM)
G/F Doña Victoria Building,
Gil Carlos Cor. Año Streets,
Poblacion, Baliuag, Bulacan
(044) 766-7701 /
(044) 766-2811 (Fax)

BALIUAG DRT HIGHWAY (ATM)
G/F 3006 Augustine Square
Commercial Complex,
Doña Remedios Trinidad (DRT)
Highway, Baliuag, Bulacan
(044) 798-1799

BANAWE (ATM)
128-B. WAS Bldg.,
Banawe St., Quezon City
711-9454 / 711-9456 /
410-1730 (fax)

CALOOCAN
100 8th Avenue corner
A. Del Mundo St. Brgy 058,
Caloocan City
287-2344 / 287-4709 (Fax)

GRACE PARK
G/F HGL Bldg.,
554 EDSA cor. Biglang-Awa St.,
Caloocan City
361-1832 / 219-0126 /
361-0931 (Fax)

FAIRVIEW PETRON
Petron Fairview, Commonwealth
Ave., Fairview, Quezon City
376-1023 / 376-1025 (Fax)

MALABON
No. 29 Gov. Pascual Avenue,
Brgy. Acacia, Malabon City
291-0254 / 446-7385 /
288-7571 (Fax)

MALABON - GEN. LUNA
55 Gen. Luna St.,
San Agustin, Malabon City
441-0977 / 332-5392 /
281-5612 (Fax)

MALOLOS
Paseo del Congreso,
Malolos, Bulacan
(044) 791-0342 /
(044) 791-2542 (Fax)

SAN JOSE DEL MONTE
G/F Block 2, Lot 12, Quirino Highway
cor. Diamond Crest Village,
Brgy. San Manuel,
San Jose Del Monte City, Bulacan
(044) 802-8866

VALENZUELA
Unit 12 & 13 Puregold Shopping
Complex, McArthur Highway,
Brgy. Dalandanan, Valenzuela City
322-2260 / 794-6058 /
794-6064 (Fax)

METRO MANILA SOUTH AREA

ALABANG
Unit-6 El Molito-II Building,
Madrigal Avenue cor.
Alabang-Zapote Road,
Ayala Alabang, Muntinlupa City
850-8718 / 219-0121 /
850-1574 (Fax)

B.F. HOMES
33 President's Ave.,
Brgy. BF Homes,
Parañaque City
219-0149 / 403-8941 (Fax)

BICUTAN
G/F FilHome Builders Building,
#68 Doña Soledad Avenue,
Betterliving Subdivision,
Don Bosco, Parañaque City
219-0129 / 776-4146 / 831-2546 /
823-2321 (Fax)

DASMARIÑAS, CAVITE
Veluz-Frances Plaza Bldg.,
Aguinaldo Highway,
Dasmarinas, Cavite
Manila line: (02) 529-8129 (Fax)
Cavite line: (046) 416-2335

IMUS
G/F Lot 3, Block 1, Anabu 1-B,
Aguinaldo Highway, Imus City,
Cavite
(046) 438-8451 (Fax)

LAS PIÑAS
G/F Pelayo Building,
Alabang-Zapote Road,
Manuela Subdivision, Pamplona-III,
Las Piñas City
(02) 219-0128 / 556-1507 / 556-1501
/ 556-1506 (Fax)

NAIA
IPT Building Arrival Lobby
Terminal 1, Sto. Niño, Pasay City
(02) 219-0132 / 853-0712 /
833-0713 (Fax)

NAIA TERMINAL 3
Stall No. 14, Arrival Lobby NAIA
Terminal 3, Brgy. 183, Pasay City
833-7295 / 833-7293 (Fax)

NINOY AQUINO AVENUE
Unit W & Y, No. 707 Columbia
Airfreight Complex,
Ninoy Aquino Ave., Brgy. Sto. Niño,
Parañaque City
219-0185 / 851-2680 /
854-0471 (Fax) / 0917-8351523

RESORTS WORLD
G/F Resorts World Complex,
Newport City, Pasay City
219-0197 / 551-3521 / 551-3520 (Fax)

SUCAT
No. 8338 Fortuna-II Building,
Dr. A. Santos Avenue, San Isidro,
Parañaque City
826-8415 / 219-0169 /
820-7747 (Fax)

MANILA PROPER AREA

ADUANA
G/F FEMII Building, A. Soriano
Street, Intramuros, Manila
527-2893 / 219-0180 /
527-2947 (Fax)

ERMITA
1312 A. Mabini St., Ermita, Manila
254-7549 / 219-0178

DASMARIÑAS - BINONDO
G/F No. 304 STP Building,
Dasmariñas cor. Marquina Streets,
Binondo, Manila
247-1472 / 247-1473

JUAN LUNA
No. 465 MCU Building,
Juan Luna Street, Binondo, Manila
241-0234 / 241-0407 (Fax)

PORT AREA
G/F Mary Bachrach Building,
25th corner Delgado Streets,
Port Area, Manila
527-7986 / 219-0191 /
527-3978 (Fax)

QUIAPO
609 Sales St., Quiapo, Manila
733-9326 / 733-9366 (Fax)

SOLER
No. 1004 Reina Regente Cor.
Soler Streets, Binondo, Manila
244-7003 / 219-0120 /
244-7001 (Fax)

STO. CRISTO
Kim Siu Ching Foundation Bldg.,
471-483 Sto. Cristo cor.
Jaboneros St., Binondo, Manila
241-4151 / 242-0842 (Fax)

TAFT AVE
G/F, Endriga Bldg.,
2270 Taft Ave., Malate
523-2297 / 219-0194 / 521-9124R

TAFT - PGH
G/F Mirasol Building,
854 G. Apacible Street corner Taft
Avenue, Brgy. 676, Ermita, Manila
536-4959 / 219-0199 /
526-6049 (Fax)

TUTUBAN
G/F, Units LS-CM19 & 20,
Center Mall II, Tutuban Center,
C.M. Recto Avenue, Binondo, Manila
219-0124 / 356-0086 (Fax)

UN AVENUE
429 Victoria Building,
United Nations Avenue,
Ermita, Manila
526-0590 / 219-0226 /
524-9935 (Fax)

METRO MANILA EAST AREA

CAINTA
40 Felix Ave., San Isidro,
Cainta, Rizal
682-8524 / 219-0214 /
682-6243 (Fax)

CONCEPCION
52 A.M. PACLEB Building,
Bayan-Bayanan Avenue,
Concepcion Uno, Marikina City
941-0714 / 219-0125 /
942-0429 (Fax)

EASTWOOD - PETRON
188 E. Rodriguez Jr. Ave. (C-5),
Bagumbayan, Quezon City
654-0084 / 211-9543 /
655-1204 (Fax)

GREENHILLS
No. 7 Eisenhower Tower,
Eisenhower Street, Greenhills,
San Juan City
723-5380 / 219-0207 /
727-4936 to 39 / 723-5380 (Telefax)

MAIN OFFICE - SAN MIGUEL
Unit A, G/F San Miguel Properties
Center, No.7 St. Francis Street,
Mandaluyong City
635-5517 / 219-0213 /
633-2430 (Fax)

MARCOS HIGHWAY
Unit #10, No. 4 Thaddeus Arcade,
Gil Fernando Avenue corner
Pitpitan Street, San Roque,
Marikina City
647-7172 / 219-2723

MARIKINA
258 J.P Rizal Street, Sta. Elena,
Marikina City
646-1808 / 219-3453 /
646-1802 (Fax)

PASIG
Renaissance 2000 Tower,
Meralco Ave., Pasig City
635-0392 / 219-0229 /
635-3661 / 631-3769 (Fax)

PASIG BOULEVARD
152 Pasig Blvd.,
Brgy. Bagong Ilog, Pasig City
217-3403 / 650-6560 /
650-6561 (Fax)

WACK-WACK PETRON
No. 553 Shaw Boulevard,
Brgy. Wack-Wack Greenhills East,
Mandaluyong City
738-1984 / 219-0242 /
738-1985 (Fax)

QUEZON CITY AREA

BROADCAST CITY
Capitol Hills Drive,
Brgy. Balara, Quezon City
932-4628 /219-0188 /
932-4969 (Fax)

COMMONWEALTH
G/F, Verde Oro Building,
No. 535 Commonwealth Ave., Brgy. Matandang Balara, Quezon City
952-7990 / 216-7636 /
952-7989 (Fax)

CUBAO
Unit 1, G/F Harvester Corporate Center, P. Tuazon cor. 7th & 8th Ave., Brgy. Socorro, Cubao, Quezon City
911-2486 / 219-0202 /
911-2485 (Fax)

E. RODRIGUEZ
No. 84 Hemady St., New Manila, Brgy. Mariana, Quezon City
705-1943 / 722-2197 /
722-2379

DEL MONTE
Bank of Commerce Bldg., Del Monte Ave. cor. D. Tuazon St., Quezon City
410-8025 / 219-3786 /
743-2541 (Fax)

DILIMAN
Commonwealth Avenue cor. Masaya Street, Old Capitol Site, Quezon City
927-6074 / 219-7093 /
920-2324 (Fax)

KAMUNING
Tomas Morato Avenue Cor. Dr. Lascano Street, Sacred Heart, Quezon City
261-0766 / 922-7981 /
922-7982 (Fax)

KATIPUNAN - PETRON
Katipunan Avenue Cor. Mangyan Road, La Vista, Brgy. Pansol, Quezon City
921-4020 / 219-0174 /
921-4042 (Fax)

QUEZON AVE.
Sto. Domingo Church Compound, #8 Biak na Bato St. cor. Quezon Ave., Quezon City
712-2534 / 732-8360 (Fax)

VISAYAS AVENUE
No. 15 Visayas Ave Ext. Barangay Culiat, Quezon City
219-0155 / 426-4854 (Fax)

WEST AVENUE
68 West Avenue, Brgy. West Triangle, Quezon City
374-5544 / 219-0168 /
374-5548 (Fax)

WEST TRIANGLE
1451 Quezon Ave. cor. Examiner St., Quezon City
925-1209 / 219-0160 /
927-4063 (Fax)

LUZON

NORTH LUZON AREA

BAGUIO
G/F YMCA Baguio Bldg., Post Office Loop (Upper Session Road), Baguio City
(074) 619-0073 /
(074) 619-0072 (Fax)

CANDON
National Highway, Brgy. San Jose, Candon City, Ilocos Sur
(077) 674-0623 /
(077) 644-0288 (Fax)

CARMEN
McArthur Highway, Carmen West, Rosales, Pangasinan
(075) 582-7365 /
(075) 582-7370 (Fax)

CAUAYAN CITY, ISABELA
G/F Majesty Commercial Bldg., National Highway, Brgy. Fermin, Cauayan City, Isabela
(078) 652-2339

DAGUPAN
G/F Eastgate Plaza, A.B. Fernandez Ave., Dagupan City, Pangasinan
(075) 522-8691 /
(075) 522-8963 (Fax)

LAOAG
Rizal corner General Hizon Sts., Laoag, Ilocos Norte
(077) 677-2572 / (077) 617-1363 /
(077) 617-1603 (Fax)

LA UNION
Northway Plaza, National Highway, Brgy. Sevilla, San Fernando City, La Union
(072) 700-1618 /
(072) 242-5683 (Fax)

SANTIAGO CITY, ISABELA
G/F Oryza Building, Maharlika Highway, Brgy. Villasis, Santiago City, Isabela
(078) 305-5360

TUGUEGARAO
27 Bonifacio cor. Washington Sts., Tuguegarao City, Cagayan
(078) 844-8041 /
(078) 844-8044 (Fax)

URDANETA
The Pentagon Bldg., McArthur Highway, Nancayasan, Urdaneta City, Pangasinan
(075) 656-1017 /
(075) 656-1018 (Fax)

VIGAN
Plaza Maestro Commercial Complex, Jacinto cor. Florentino Sts., Vigan City, Ilocos Sur
(077) 722-2119 /
(077) 632-0802 (Fax)

CENTRAL LUZON AREA

ANGELES
McArthur Highway cor. B. Aquino St., Lourdes Sur East, Angeles City
(045) 626-2010 (Fax) /
(045) 323-4130 (Fax)

ANGELES NEPOMART
G/F Entec Bldg., Teresa Ave., NepoMart Complex, Brgy. Cutcut, Angeles City
(045) 497-0551

BALANGA
Paterno St., Poblacion, Balanga City, Bataan
(047) 237-7622 /
(047) 237-2366 (Fax)

BALIBAGO
Mc Arthur Highway cor. Victor St., Balibago, Angeles City
(045) 892-0875 / (045) 331-3389 /
(045) 625-5586 (Fax)

CABANATUAN
VP Bldg., Maharlika Highway, Brgy. H. Concepcion, Cabanatuan City, Nueva Ecija
(044) 940-1254 /
(044) 940-1263 (Fax)

IBA
TRB Bldg., Ramon Magsaysay Ave., Iba, Zambales
(047) 602-1866 /
(047) 811-1025 (Fax)

SAN FERNANDO
Insular Life Bldg., McArthur Highway, San Fernando, Pampanga
(045) 961-1624 /
(045) 961-1680 (Fax)

STA. CRUZ
National Road cor. Misola St., Poblacion South, Sta. Cruz, Zambales
(047) 831-1113 (Telefax)

SUBIC FREEPORT
G/F, The Venue Annex Building, Rizal Highway, Subic Bay Freeport Zone 2222, Olongapo City, Zambales
(047) 252-1851 /
(047) 252-1863 (Fax)

TARLAC
Unit 110-112 Rising Sun Bldg., Block 4, Brgy. San Nicolas, McArthur Highway, Tarlac City
(045) 982-5401 /
(045) 982-5365 (Fax)

MABALACAT
McArthur Highway, San Francisco, Mabalacat City
(045) 649-4407 / (045) 308-0516

SOUTH LUZON AREA

BATANGAS - CAEDO
Caedo Commercial Complex, Calicanto, Batangas City
(043) 723-6773 / (043) 723-1410 (Fax)

BATANGAS - P. BURGOS
No. 27 P. Burgos St., Batangas City
(043) 723-0275 /
(043) 723-0909 (Fax)

CALAMBA
Unit 6 & 7, New Parian Business Center, National Road, Brgy. Parian, Calamba City, Laguna
(049) 502-7922 /
(049) 502-8508 (Fax)

CALAPAN
Leona Yap Ong Bldg., J.P. Rizal St., Calapan City, Oriental Mindoro
(043) 288-4496 /
(043) 288-4031 (Fax)

LEGAZPI CITY
G/F Diabetes One-Stop Center, LANDCO Business Park, Legazpi City
(052) 742-0691 /
(052) 480-6054

LIPA
No. 7, Bank of Commerce Building, C.M. Recto Avenue, Brgy. 9-A, Lipa City, Batangas
(043) 756-4214 /
(043) 756-2588 (Fax)

LUCENA
G/F Bank of Commerce Building, Quezon Avenue cor. Lakandula Street, Brgy. IX, Lucena City, Quezon
(042) 710-9691 /
(042) 710-9692 (Fax)

NAGA
Romar-I Bldg., Elias Angeles St., Naga City
Manila Line: (02) 250-8093 (Fax) /
(054) 473-4080 / (054) 811-8931

PUERTO PRINCESA
J.P. Rizal Avenue, Brgy. Manggahan, Puerto Princesa City, Palawan
(048) 434-2171 / (048) 434-2172 /
(048) 434-2170 (Fax)

SAN PEDRO
Pacita Commercial Complex,
San Pedro, Laguna
808-2026 / 808-2002 /
(049) 307-1637 (Fax)

STA. ROSA
Shop 1-A, Paseo-III, Embarcadero Lane, Paseo De Santa Rosa, Brgy. Don Jose, Sta. Rosa City, Laguna
(049) 541-1546 /
(049) 541- 1795 (Fax)

TANAUAN
G 04 The City Walk #2 Pres. Laurel Highway Brgy. Darasa,
Tanauan City, Batangas
(043) 784-6990 /
(043) 784-6994 (Fax)

VISAYAS

EASTERN VISAYAS AREA

CEBU - F. CABAHUG
Units 5 & 6 GPH Central, F. Cabahug corner President Roxas Streets, Bgy Kasambagan, Cebu City
(032) 342-7144 (Telefax /
(032) 316-9913 / (0917) 835-1316

CEBU - BANILAD
First Jomica Realty & Dev. Bldg.,
No. 888 A.S. Fortuna St.,
Brgy. Banilad, Mandaue City, Cebu
(032) 231-6704 / (032) 316-3321 /
(032) 231-6706 (Fax)

CEBU - MAIN
G/F Cebu Woman's Club Building,
B. Rodriguez St. Cor. Osmeña Blvd.,
Cebu City
(032) 253-1951 / (032) 316-9912 /
(032) 255-4223 (Fax)

CEBU STO. NIÑO - MAGALLANES
G/F Unit-2, Martina Sugbo Bldg.,
P. Burgos cor. Magallanes St.,
Brgy. Sto. Niño, Cebu City
(032) 254-1825 / (032) 316-9925 /
(032) 253-3999 /
(032) 253-7708 (Fax)

LAPU LAPU
Unit 3-5 AJS Building, M.L. Quezon National Highway, Pusok,
Lapu-Lapu City, Mactan, Cebu
(032) 341-3854 / (032) 316-9927 /
(032) 341-3855 (Fax)

MANDAUE
Entienza Bldg., National Hi-way,
Mandaue City, Cebu
(032) 346-6901 / (032) 316-9262 /
(032) 346-6902 (Fax)

MANDAUE NRA
G/F Mantawe Ave., Brgy. Tipolo, North Reclamation Area, Brgy. Tipolo, Mandaue City, Cebu
(032) 268-4693 / (032) 316-9926 /
(032) 564-3249 (Fax)

ORMOC
H. Serafica Building, Real Street,
Ormoc City, Leyte
(053) 561-8523 /
(053) 255-4366 (Fax)

TACLOBAN
Door Nos. 12 & 13, RUL Building,
Justice Romualdez St., Brgy. 15,
Tacloban City
(053) 832-2866

TAGBILARAN
G/F 0025 Karan's Building,
B. Inting St., 2nd District, Brgy.
Poblacion 2, Tagbilaran City, Bohol
(038) 411-5400 /
(038) 411-3773 (Fax)

WESTERN VISAYAS AREA

BACOLOD - ARANETA
Yusay Arcade, Araneta St.,
Bacolod City
(034) 433-4667 /
(034) 433-2267 (Fax)

BACOLOD - CAPITOL
GR 04 & 05, 888 Chinatown Premier Mall, Cottage Road corner Gatuslao St., Brgy. 8, Bacolod City, Negros Occidental
(034) 432-3287

BACOLOD - LACSON
Corner 12th & Lacson Streets,
Brgy. 4, Bacolod City,
Negros Occidental
(034) 433-4238 /
(034) 433-1139 (Fax)

DUMAGUETE
G/F CAP Building, Rizal Avenue,
Brgy. 5, Dumaguete City,
Negros Oriental
(035) 225-7668 /
(035) 422-6896 (Fax)

ESTANCIA
Clement St., Estancia, Iloilo
(033) 397-0222 /
(033) 397-0220 (Fax)

ILOILO - ATRIA
F & B 2, UPMC Bldg., Atria Park District, Brgy. San Rafael,
Iloilo City, Iloilo
(033) 501-6013 / (033) 517-0684

ILOILO - IZNART
TCT Bldg., Iznart St., Iloilo City
(033) 335-0710 / (033) 335-0712

ILOILO - J.M. BASA
TTW Building, Mapa Street, Brgy. Ortiz, Iloilo City, Iloilo
(033) 337-8721 /
(033) 335-1020 (Fax)

KABANKALAN
Guanzon St., Kabankalan City,
Negros Occidental
(034) 471-2853

KALIBO
1280 Garcia Bldg. C. Laserna St.
Kalibo, Aklan
(036) 262-5294 /
(036) 268-9032 (Fax)

ROXAS CITY
Gaisano Arcade, Arnaldo Blvd.,
Roxas City, Capiz
(036) 621-0845

MINDANAO

MINDANAO AREA

BUTUAN
G/F, Cesia Bldg., Montilla Blvd.,
Butuan City, Agusan del Norte
(085) 815-9633 / (085) 342-9321 /
(085) 342-6248 (Fax)

CAGAYAN DE ORO - CARMEN
Eric Tan Building, Vamenta Blvd.,
Carmen, Cagayan de Oro City
(088) 231-4167 / (0917) 515-3215

CAGAYAN DE ORO - LAPASAN
Suites 6 & 7, Gateway Tower-1,
Limketkai Center, Lapasan Highway, Cagayan De Oro City,
Misamis Oriental
(088) 856-3991 /
(088) 856-3977 (Fax)

CAGAYAN DE ORO - VELEZ
Don A. Velez-Akut Sts.,
Cagayan de Oro City
(088) 856-4371 (Fax)

DAVAO - CITY HALL
Valgoson's Realty Bldg.,
City Hall Drive, Davao City
(082) 226-4074 /
(082) 226-4075 (Fax)

DAVAO - LANANG
G/F Consuelo Bldg., Km. 07,
Barangay Lanang, Davao City,
Davao Del Sur
(082) 234-1042 /
(082) 221-2590 (Fax)

DAVAO - RIZAL
CAP Dev't Center Bldg.,
Rizal St., Davao City
(082) 226-2223 /
(082) 222-0904 (Fax)

GENERAL SANTOS
G/F, Sunshine Hardware Bldg.,
Santiago Blvd.,
General Santos City
(083) 552-9375 /
(083) 552-5236 (Fax)

ILIGAN CITY
G.F, M. Badelles cor. De Leon Street, Barangay Poblacion,
Iligan City, Lanao del Norte
(063) 224-6488

MARAMAG
G/F, TRB Building, Sayre Highway,
North Poblacion, Maramag,
Bukidnon
+63917 516 0606

PAGADIAN
F.S. Pajares Avenue, Gatas District,
Pagadian City, Zamboanga Del Sur
(062) 925-3399

TAGUM CITY
Units 104-105 PLJ Building,
Apokon Road, Magugpo Poblacion,
Tagum City, Davao Del Norte
(084) 216-5364

ZAMBOANGA - VETERANS
Veterans Avenue cor. Camachile Street, Brgy. Zone 3, Zamboanga City, Zamboanga Del Sur
(062) 991-2381 /
(062) 991-2980

Bank of Commerce

We think CUSTOMERS

SAN MIGUEL PROPERTIES CENTRE
NO. 7 ST. FRANCIS ST., MANDALUYONG CITY

www.bankcom.com.ph

For inquiries, call Bank of Commerce Customer Care Hotline: (02) 632-2265, Domestic Toll-Free numbers: (PLDT) 1800-10-982-6000 and (Globe Lines) 1800-8-982-6000, or send us an email at customerservice@bankcom.com.ph

Bank of Commerce is supervised by the Bangko Sentral ng Pilipinas with telephone number (02) 708-7087 and e-mail address: consumeraffairs@bsp.gov.ph