Bank of Commerce

An affiliate of San Miguel Corporation

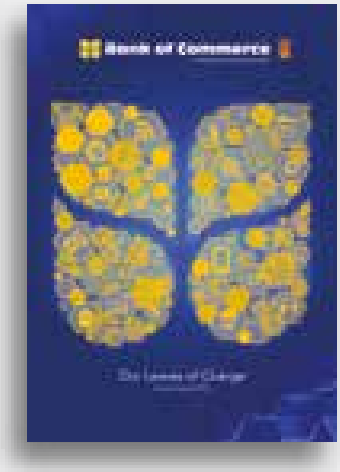
Our Leaves of Change

Annual Report 2018

TABLE OF CONTENTS

2 Company Profile
4 Vision, Mission, and Service Promise
5 Economic Report and Forecast
6 Message from the Chairman
8 Q&A with the President and CEO
10 Products and Services
13 Financial Highlights
14 Operational Highlights
20 Corporate Social Responsibility
22 Corporate Governance
32 Consumer Protection
36 Table of Organization
38 Board of Directors
51 Senior Executive Team
55 Management Committees
57 Risk Management
68 Capital Management
72 Internal Audit Division Report
73 Statement of Management's Responsibility for Financial Statements
74 Audited Financial Statements
75 Report of Independent Auditors
78 Statements of Financial Position
80 Statements of Income
81 Statements of Comprehensive Income
82 Statements of Changes in Equity
84 Statements of Cash Flows
86 Notes to the Financial Statements

209 Senior Officers
212 Branch / ATM Directory
217 Annex A - Related Party Transactions



ABOUT THE COVER

OUR LEAVES OF CHANGE

New thinking is leading the transformed business of Bank of Commerce in a digitized industry.

The theme and design reflect our new approach to a seamless banking experience. The convergence of multiple digital tools and platforms in our digitized leaves reflects how the brand empowers the customers of the future.

ABOUT OUR PAPER

The 2018 Bank of Commerce Annual report cover and main pages were printed on Tocatta paper certified by the Forest Stewardship Council (FSC). The FSC certification ensures that materials come from responsibly managed forests that provide environmental, social and economic benefits.

Kodak Sonora process-free plates, non-petroleum-based soy ink, and a Heidelberg carbon neutral offset press were utilized in the printing of this report.

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 operating 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, the 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. The Bank was then renamed Boston Bank of the Philippines.

In November 1991, the Bank changed its official name to Bank of Commerce. With the buyout of the majority interest of the First National Bank of Boston in 1993, Bank of Commerce was placed 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, 2018.* 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 16, 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, transaction banking 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 139 Branches and 264 Automated Teller Machines (ATMs) strategically located nationwide, as of December 31, 2018.

ABOUT US

VISION

To be the Bank of choice for the business community, delivering 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.

We think CUSTOMERS

ECONOMIC REPORT AND FORECAST

While the 2018 Gross Domestic Product (GDP) marked the weakest pace of expansion in three years, the Philippine economy was still able to grow by 6.2% in 2018, a respectable growth rate vis a vis the Chinese and Vietnamese economies which grew by 6.6% and 7% respectively.

The 6.2% gross domestic growth of the Philippines was buoyed by the commendable performance of the services sector which accounted for 56.2%, followed by the industry sector at 34.8%. Construction proved to be one of the biggest contributors to the industry sector. In the fourth quarter alone, it grew by 21.3%, its fastest growth since the first quarter of 2013.

Despite political uncertainties across the globe, cash remittances remained strong, increasing to USD28,943 billion in 2018 from USD28,060 billion in 2017. Majority of the remittances came from the United States, Saudi Arabia, United Arab Emirates, Singapore, Japan, United Kingdom, Qatar, Canada, Germany, and Hong Kong. With this, cash remittances from Overseas Filipino Workers are expected to remain strong, making it a steady source of foreign exchange.

Fueling growth further is the increase in government spending which went up by 12.8% in 2018 from 7% in 2017, and capital formation which surged by 13.9% in 2018 from 8.2% in 2017. Likewise, exports leveled up by 11.5% and imports by 14.5%.

The Philippine economy's continuing growth gives financial institutions various opportunities to grow their loan portfolios both for corporate accounts (lending for infrastructure, power, manufacturing, and other expanding sectors) and consumer accounts (auto, home and credit card loans).

The National Economic Development Authority (NEDA) projects that the country will attain a GDP of 6.1% to 6.3% in 2019 and 6% in 2020. The International Monetary Fund and World Bank both see Philippine GDP at 6.5% in 2019 and 6.6% in 2020 while the Asian Development Bank gave more conservative figures with GDP at 5.7% in 2019 and 5.6% in 2020.

With these projections in mind, Bank of Commerce remains optimistic over the country's economic growth. We will continue to provide seamless banking experience. We are equipped to serve and empower our customers by giving them access to improved branch services, more consumer products, and better financing and investment opportunities.

2018 proved the resiliency of the Philippine economy as it attained a 6.2% growth rate, remaining among the fastest growing economies in Asia. Although this was the slowest the economy has grown in three years, it was still a remarkable feat considering the challenges brought on by external and internal factors.

In December 2018, the country earned a credit rating of BBB from Fitch, one notch above minimum investment grade. The World Bank was equally optimistic, forecasting GDP growth at 6.5% in 2019 and 6.6% in 2020 for the country.

The slowdown affected the banking industry, which posted modest gains. Philippine banks registered earnings of PHP178.83 billion, up by 6.4% from 2017. While universal and commercial banks posted an increase in profits by 9.3% to PHP159.93 billion from PHP146.33 billion, earnings of mid-sized banks decreased by 11.7% to P15.83 billion from PHP17.94 billion.

Bank of Commerce recorded total assets of PHP154.08 billion, up by 9.7% 2017, and a net income of PHP425 million in 2018, down by 32% from the previous year.

There were significant double-digit growth rates in specific areas: 46% in credit card portfolio, 30% in Assets Under Management (AUM), 24% in consumer loan portfolio, 16% in core deposits, and 14% in corporate loan portfolio.

MESSAGE FROM THE CHAIRMAN

Faced with such an economic landscape, the Bank launched initiatives which played on its strengths. By consolidating existing relationships, it was able to expand its reach and coverage, and create new business opportunities. By focusing on customer concerns, it was able to provide efficient and timely service, and introduce new products and services.

One of the most significant developments of 2018 was the appointment of Michelangelo R. Aguilar as President and CEO on last July 16. With over 35 years of banking experience in the areas of Corporate Banking, Global Markets, and Treasury, Mr. Aguilar has the expertise and experience to steer the Bank towards a prosperous future. He is supported by a strong Senior Executive Team, which now has 19 members.

With the positive prospects for the next two years, the Bank lays the groundwork for growth by pursuing the digitalization of operations and the empowerment of the workforce.

By empowering staff and systems with appropriate technology, the Bank hopes to continue providing superior service to its clients, build a more profitable business for its stakeholders, and become a partner in the continuing progress of the nation.

JOSE T. PARDO
Chairman

CHARTING THE PATH FOR CONTINUED GROWTH

Q&A WITH THE PRESIDENT AND CEO

What is your assessment of the Bank's performance in 2018?
2018 was a colorful year in the sense that the Bank experienced both growth and external challenges.

We experienced double-digit growth rates in 2018 in both corporate and consumer business. Despite macroeconomic developments, our corporate loans grew by 14% contributing to the bulk of the Bank's PHP72 billion loan generation.

Equally notable were the 24% and 46% growth in consumer loans and credit card receivables, respectively. Complementing the latter was the launch of Bank of Commerce World Mastercard Credit Card, signifying our entry into the lucrative high net worth banking segment.

Fulfilling our retail banking strategy, the Bank completed the on-time migration of magstripe ATM cards to the EMV-enabled Mastercard Debit Card. It was also among the first to provide customers with fund transfer capability through Instapay and PesoNet, and engage more internet-savvy clients to transact via Retail Internet Banking and Corporate Internet Banking channels. In the process, the Bank opened new revenue streams from local and international debit card transactions as well as low-cost fund transfers. This necessitated greater vigilance in the areas of compliance specially on anti-money laundering, audit, and financial consumer protection. Other key businesses strongly performed in 2018. The Bank's position in Trust Banking continued to grow with Assets Under Management (AUM) posting a 30% increase. In the remittance transactions area, the Bank strengthened its partnership with Bank Al Jazira, one of the leading financial institutions in the Kingdom of Saudi Arabia (KSA). For the Remittance segment, transactions from the Kingdom of Saudi Arabia (KSA) increased to 40,947 in 2018 from 1,498 transactions in 2017.

The road to achieving these gains was not without significant challenges. At the macroeconomic level, the industry had to contend with the implementation of the Tax Reform for Acceleration and Inclusion (TRAIN) Act, which set the tone for the year's inflation trajectory. Crude oil prices and food inflation put pressure on commodity prices resulting in an unfavorable market environment for fixed income instruments. Indeed, the increase in interest rates saw 10-year peso bond yields breaching 8%, the highest level since 2010.

This market situation overshadowed business gains, resulting in a 32% downturn in income to PHP425 million by end of 2018. Nevertheless, the adoption of the Philippine Financial Reporting Standard 9 (PFRS 9) enabled the Bank to manage risks more effectively and produce a stronger balance sheet.

What are your goals for 2019? How do you see the Bank in the next five years?
Our goals for the Bank are two-fold.

In the short-term, we seek to attain significant gains in our current and savings deposit account ratio. Growing our asset portfolio through corporate and consumer loans, as well as securing better revenues in foreign exchange, are a priority and a key measurement of our performance.

In the long-term, we will strive to increase our return on equity to 8.8% to make us competitive with similarly sized banks. We will also work to expand our client base significantly in the next five years.

These efforts will make for a bigger, better Bank fuelled by investments in information technology and the introduction of new products and services that are relevant to customers, supported by an active human resources program and focused marketing efforts. When this happens, we will have fulfilled our promise to make customer delight a daily experience.

What will be the drivers of growth for the Bank?
The Branch Banking Group (BBG) will be the primary key driver of future growth. It is the nucleus of bank sales and marketing activities. BBG is the perfect avenue to cross-sell various revenue-generating products and services across the Bank's target market.

The Bank will also develop and market products for the supply chain business of clients as it strengthens client relationships in the Corporate Banking Group and the Transaction Banking Group.

Consistent with its strong support for the business sector, the Bank will also develop and offer well-designed, convergent technology solutions to address the supply chain requirements of clients, whether they be buyers or sellers, in order to optimize their working capital, provide liquidity, improve transaction efficiency, and reduce transaction cost.

To ensure that these efforts are always within safety nets, the Bank will strengthen and cultivate a culture of compliance that fosters safety and security.

How do you plan to transform the Bank in 2019 and beyond?
Our people are our greatest asset. Empowering them is, therefore, critical to the attainment of a forward-looking Bank of Commerce. To achieve this goal, we will initiate and implement a rigorous marketing training program at the branch level. At the management level, we will provide continuing education on optimizing the use of technological systems and improving processes and response time with an approved PHP1 billion capital expenditure budget.

The Bank will develop programs to reinforce the strengths of the senior management, update and sharpen the skills of product specialists, and hone the talents of staff members.

As we recognize how technology can empower employees to bring about positive change in our organization, we will champion the adoption of a digital mindset that marries our client-oriented culture with efficient banking technology.

What kind of leadership is required to help shape the Bank's present and future?
Achieving our vision for the Bank requires leadership that is goal-oriented, results-driven, and committed to our short- and long-term aspirations.

This leadership must set clear directions and concrete targets for the organization, and define objective performance expectations against which success will be measured. Last but not the least, this leadership will set the example of management by consensus which translates to forging a highly engaged, collaborative and committed team in the Bank.

MICHELANGELO R. AGUILAR
President and CEO

PRODUCTS & SERVICES

RETAIL PRODUCTS

- Savings Account with Debit Card (Mastercard)
- 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 (Mastercard)

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

CONSUMER LOANS

- Home Loan
- Auto Loan
- Salary Loan

CREDIT CARD

- Bank of Commerce Mastercard

TRUST PRODUCTS AND SERVICES

- 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
  - Trust Under Indenture
  - Collateral Trust
  - Special Purpose Trust/Other Institutional Trust
- Investment Management Account
- Other Agency Accounts
  - Facility / Loan Agency
  - Escrow Agency
  - Buyer and Seller Escrow
  - POEA Escrow
  - BIR Escrow
  - HLURB Escrow
  - Source Code Escrow
  - Other Escrow Accounts

TREASURY PRODUCTS

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

TRANSACTION BANKING

CASH MANAGEMENT SERVICES

- Fund Manager Solutions*
  - Deposit Inquiry Services
  - Account Transaction History
  - Bank Statement Downloading
  - SOA Download
    (Multi-cash, MT940 and MT950 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
- Corporate Check Cutting Service

- Collections Management Solutions*
  - Auto Debit Arrangement (ADA)
- Other 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)

DIGITAL CHANNELS

- Retail Internet Banking
- Point of Sale
- Automated Teller Machines (ATM)
- Fintech / Card Solutions

REMITTANCE SERVICES

- SikapPinoy OFW Account with Debit Card
- SikapPinoy Asenso Program
- Credit to Accounts with Bank of Commerce
- Credit to Accounts with Other Philippine Banks via PesoNet
- Credit to Accounts with Other Philippine Banks via Instapay
- 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
  - Pacific Ace Forex HK Ltd
  - Max Money SDN BHD
- Cash Pick-up Services via Payout Partners:
  - M Lhuillier
  - Cebuana
  - LBC Express
  - Palawan Pawnshop
  - TrueMoney
- eGovernment Payments of OFWs through Remittance Partners:
  - SSS Contributions / Loan Payments
  - PhilHealth Contributions
  - Pag-IBIG Contributions / Loan Payments

INTERNATIONAL TRADE SERVICES

- Import
  - Import Letter of Credit (LC) (Sight / Usance)
  - Payment Abstract Secure (PAS5) Enrollment, and Customs Duties & Taxes Payment
  - Shipside Bond Guarantee
  - Airway Bill Endorsement
  - Foreign Exchange (FX) Purchase for Advance Payment of Importation
  - Negotiation of:
    - Open Account (OA)
    - Documents Against Payment (DP)
    - Documents Against Acceptance (DA)
    - Import Letter of Credit
    - Standby Letter of Credit (SBLC)
- Domestic
  - Domestic Letter of Credit
  - Domestic Standby Letter of Credit
  - Negotiation of Domestic Letter of Credit
- Export
  - Export Bills for Collection
  - Export Bills Purchased
  - Export Advances

**Available in Corporate Internet Banking*

FINANCIAL HIGHLIGHTS

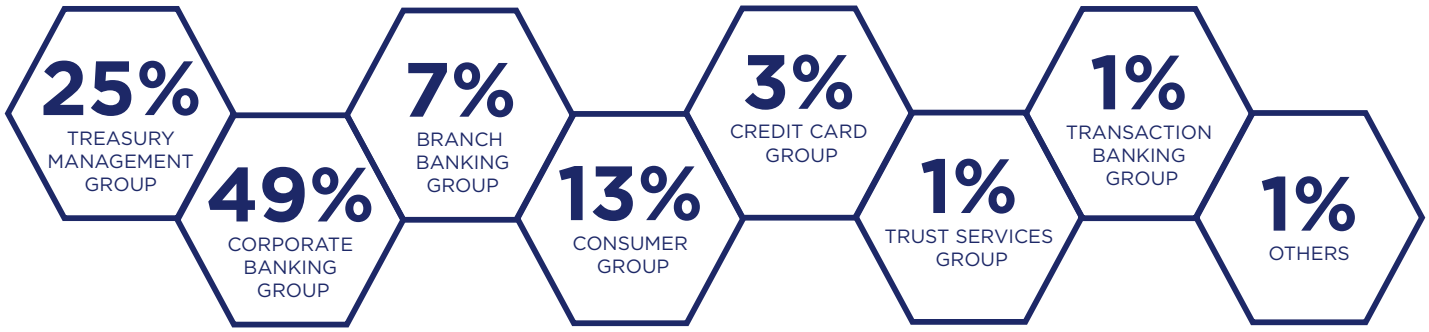
	2018	2017
PROFITABILITY		
Total Net Interest Income	3.7	3.4
Total Non-Interest Income	1.2	1.4
Total Non-Interest Expenses	(4.2)	(3.8)
Expense from Income Tax	(0.4)	(0.4)
Pre-provision profit	0.3	0.6
Reversal of Credit and Impairment Losses	0.2	0.0
Net Income	0.4	0.6
SELECTED BALANCE SHEET DATA		
Liquid Assets	55.0	59.4
Gross Loans	72.9	64.0
Total Assets	154.1	140.5
Deposits	131.2	118.8
Total Equity	18.1	17.8
SELECTED RATIOS		
Return on Equity	2.4%	3.6%
Return on Assets	0.3%	0.5%
CET 1 Capital Ratio (for UBs/KBs)	14.1%	16.4%
TIER 1 Capital Ratio (for UBs/KBs)	14.1%	16.4%
Capital Adequacy Ratio	15.1%	17.1%
PER COMMON SHARE DATA		
Net Income per share:		
Basic	3.8	5.6
Diluted	3.8	5.6
Book Value	161.1	158.6
OTHERS		
Cash Dividends Declared	N/A	N/A
Headcount	1,805	1,720
Officers	836	804
Staff	969	916

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

OPERATIONAL HIGHLIGHTS

As the leaves of trees change while seasons pass, the needs of our customers become more complex. Across the Bank's operations, our various groups started to create platforms and solutions designed to enable a seamless banking experience. Now more than ever, we are equipped to serve and empower the customers of the future by giving them access to branch services, consumer products, and financing and investment opportunities.

CONTRIBUTION OF EACH BUSINESS GROUP TO THE TOTAL BANK INCOME



BRANCH BANKING GROUP

Branch Banking Group (BBG) continued to perform above expectations in 2018, increasing its core deposits by nearly 16%, or over PHP13 billion, of which CASA grew by PHP4.5 billion, year-on-year. This was on the back of more than 45,000 new clients acquired during the same period. Total branch-generated consumer loans tallied at over PHP1.6 billion by the end of the year, 23% more than in 2017.

Five new branches were opened in emerging countryside areas: San Jose Del Monte, Bulacan; Mabalacat, Pampanga; Pagadian, Zamboanga Del Sur; Sta. Maria, Bulacan; and Talisay City, Cebu, bringing the total number of branches to 139 by the end of 2018. Moreover, BBG relocated branches to explore previously untapped centers of business: Cebu F. Cabahug, Cagayan De Oro-Carmen, and Ninoy Aquino Avenue. This reflects the Bank's commitment to reach out to a broader scope of market, as it continues to establish and fortify trade partnerships in more locations across the country.

Following fresh strategic directions, BBG embarked on a renewed campaign to reintroduce the Bank of Commerce brand, particularly emphasizing its affiliation with leading conglomerate, San Miguel Corporation (SMC). Client appreciation events were held in a series of roadshows which brought the Bank's senior team and product managers to intimate interactions with customers in high-growth areas such as Cebu, Pampanga, Cagayan de Oro, and Laguna. Seeking to enhance brand visibility, BBG likewise partnered with the Consumer Loans and Credit Card groups in holding major product exhibits in the same areas.

On the operations side, and in response to the new President's call for a culture of compliance, BBG initiated proactive programs that seek to strengthen its customer file maintenance standards, focusing on diligent adherence to Anti-Money Laundering (AML) and regulatory requirements. Significant headways were achieved in the areas of Customer Information Form (CIF) clean-up and risk control mechanisms, supported by regular trainings and e-advisories. BBG likewise jumpstarted new projects in 2018 towards bigger capabilities in 2019 and beyond, aimed at wider market reach, as well as faster and more customer-friendly services.

CORPORATE BANKING GROUP

The Corporate Banking Group (CBG) marked another year of exceptional performance with a 14% growth to its loan portfolio from PHP50.8 billion in 2017 to PHP58.0 billion in 2018. From cultivating transactions with new commercial clients to strengthening partnerships with industry players, CBG sustained its momentum of diversifying its portfolio through previously unexplored engines of growth.

Amid a highly competitive market in 2018, CBG delivered on its forecast with wider provincial coverage, more aggressive financing opportunities, and expanding reach to power, real estate and construction, and manufacturing industries, with clients among the country's top 1,000 corporations, middle market, and Small and Medium-sized Enterprises (SMEs).

Asset quality continues to improve with no new significant past due accounts. CBG provided efficiency measures to provide full-on loan and capital management, and empowered frontliners of each corporate segment to adhere to a culture of compliance and risk management, and to offer results-oriented financial solutions to its growing client base.

In 2019, CBG is set to take hold of a bigger market share by increasing its focus on conglomerates and institutional markets, and to contribute to the Bank's asset growth and profitability by heightened market presence in the SMC ecosystem and cross-selling other bank products, such as cash management, foreign exchange, trade finance, and trust services to provide a more extensive range of financial services to clients.

Moving forward, the Bank's corporate banking arm will aim for a continued growth momentum by identifying key corporate clients, nurturing long-standing partnerships, and supporting significant business expansions with strategic financing.

CONSUMER GROUP

The Bank continued to build on the strategic and organizational changes initiated in 2017 resulting in a 24% growth in Consumer Loan portfolio with a total of PHP11.02 billion in housing, auto, and salary loans. In 2018, the Bank's auto loan portfolio increased by 17% from PHP2.9 billion to PHP3.4 billion. This was achieved in the midst of a general slowdown in automobile sales relative to prior years. Home loans grew more than 30%, from PHP5.3 billion to PHP6.9 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.

The focus on existing markets and relationships were further strengthened as the Organic Channels Division beefed up its personnel with additional channel managers and marketing associates who ensured that loan applications from the Bank's internal units, such as branches and corporate banking, are processed timely and efficiently. With an increased emphasis on cross-selling, the loan production from the branches grew by PHP1.40 billion in 2018.

The Bank maintained its two-pronged approach to growing its consumer loans business. The first approach leverages on existing relationships harnessed by its branch and corporate banking network. The second approach is by strengthening ties with its business partners, primarily auto loan dealers and property developers, who remain a major source of retail lending business.

In order to sustain growth in the years ahead, the Consumer Group will focus on expanding partnerships with its existing client base and providing enhanced services by investments in loan processing and management technologies.

CREDIT CARD GROUP

The Credit Card portfolio grew by 46% in 2018, or a total of over PHP710.44 million as compared to PHP487.63 million in 2017. Total card spend reached PHP2.2 billion, or a 59% increase compared to the same period last year, driven by strong installment billings, promotional tie-ups, and seasonal usage campaigns. Gross income reached PHP172 million, or an increase of 65% compared to 2017.

Total cards issued have reached over 50,000, and new cards issued grew by 19% compared to the same period last year. A new SMS facility was launched to enhance collections efforts and communication of marketing promotions, which contributed to the improvement in the overall business performance of CCG.

TRANSACTION BANKING GROUP

In 2018, the Bank marked a milestone with the establishment of the Transaction Banking Group (TBG) to create innovative, relevant, and valuable solutions to address client requirements from a supply chain perspective, ranging from peer to peer, business to business, and business to consumer transactions. For instance, Corporate Checkwrite was launched to eliminate the process of manual creation, signing, and releasing of checks to help clients focus on core financial tasks at hand, such as analysis of cash flow.

Auto Debit Arrangement (ADA), which continues to provide a seamless collection process for Petron Dealers, reached a total of PHP18.93 billion in 2018.

For dealers who became Bank clients, Retail Internet Banking (RIB) made online monitoring of their cash flow possible. Usage for this facility has grown to 73% as of year-end, with total number of users reaching 37,276. For a more convenient way of reloading RFID, payment channels such as Over the Counter (OTC), Automated Teller Machines (ATM), and RIB have been promoted actively, reaching 50% growth from its current base. Bank ATMs are strategically placed in key areas, reaching 253 sites as of year-end. To promote interbank electronic fund transfers, the Bank implemented Instapay and PESONet, an interbank electronic fund transfer service which allows consumers and businesses to transfer to or receive funds through any PESONet-affiliated financial institution. The Bank generated more than 24,138 transactions since its launch in November. With InstaPay and PESONet, the Bank was able to contribute to improving the Philippine financial system by participating in interoperability among financial institutions.

For the Remittance segment, transactions from the Kingdom of Saudi Arabia (KSA) increased to 40,947 in 2018 from 1,498 transactions in 2017 considering the current partnership with Arab National Bank and Bank Al Jazira. The Bank has cultivated partnerships in ten countries: KSA, United Arab Emirates, Qatar, Kuwait, Australia, Canada, Hong Kong, Malaysia, South Korea, and London, United Kingdom. To expand our presence domestically, TBG signed up with TrueMoney, whereby 6,000 payouts have been added. Money transfer clients now enjoy added convenience as they are able to claim cash in over 20,000 locations nationwide.

Customers of the Bank can expect new and exciting features and product developments as TBG aims to lead the Bank's digital evolution. By the first quarter of 2019, the remittance team will launch more cross-selling initiatives relevant to the requirements of our Overseas Filipino Workers (OFWs). More international partners will be actively participating in growing the remittance volume of the Bank, such as WorldRemit and Kookmin Bank. RIB will be rebranded in 2019 through the creation of an app, enabling easier and faster online transactions. Corporate Internet Banking will likewise be enhanced, whereby foreign remittances will be made available electronically. TBG will also roll out plans to bring in trade innovation services to tap the banking needs of the growing import and export business segment nationwide.

TREASURY MANAGEMENT GROUP

Rising global oil prices, domestic rice supply constraints and the impact of the TRAIN law pushed inflation rate to its peak (6.7%) in almost a decade. Bangko Sentral ng Pilipinas (BSP) responded with a spate of policy rate hikes while the Fed continued with their own series of rate hikes. These set the stage for higher interest rates in 2018, while bond yields soared and the Philippine Peso tumbled.

Prudent and dynamic liquidity management led to optimum fund sourcing, which helped sustain positive net interest margins despite the rising borrowing costs. Treasury missed its 2018 trading gain target as the bond market failed to recover in the same year. Strategies to mitigate the negative impact of elevated interest rates were employed in the bond trading desks. Close monitoring of the currency markets was key in securing a decent income from foreign exchange trading. Meanwhile, timely bond purchases towards the end of the year, as bond yields reached their peak, shored up enough accrual income to meet its accrual income target. Given the scant opportunity to profit from proprietary trading, Treasury shifted its focus in developing its flows business and fee-based income. Closer coordination with the branches to broaden foreign exchange flows was done. It also participated in more primary issuances as selling agent, and tripled its fee-based income.

TRUST SERVICES GROUP

Despite a challenging 2018, the Trust Services Group (TSG) managed to increase its Assets Under Management (AUM) by 30.32% to end the year at PHP31.32 billion; with gross revenues increasing by 2.5% to PHP83.23 million. While AUM has dramatically increased over the past year, a new focus will be on improving the profitability profile of the Bank's trust business.

TSG recalibrated its strategic positioning, not only in the diversification of available investment outlets,

but more importantly, in starting to shift its product development and marketing efforts to generate higher recurring fees in the coming years. Coupled with renewed efforts to optimize the branch network and the San Miguel ecosystem, TSG is poised to capitalize on opportunities to grow the trust business.

SUPPORT INITIATIVES

INFORMATION TECHNOLOGY SERVICES DIVISION

The Information Technology Services Division (ITSD) has taken the lead in the continuous execution of the Bank's 2016-2018 IT plan.

Completed in 2018 were network infrastructure and technology upgrades on Branch and ATM Data Communications Facilities, Production and Disaster Recovery Datacenter Sites, and those in aid of head office space planning. ITSD led the rollout of the application system functionalities such as MIS Reporting, Lotus Notes Verse (Mobile App) and Sametime (chat facility), SWIFT, and online payment facility, coins.ph. ITSD played a key role in making the Bank among the first local financial institutions to facilitate the interbank fund transfer services, PESONet and InstaPay.

ITSD started working on these projects to provide improved operational support starting in 2019: HRIS, the new Payroll and Attendance System for the Bank's rank and file employees; new Anti-Money Laundering Systems; and improved Servicedesk System.

In 2019, the Bank shall pursue significant upgrades in its IT infrastructure to address the increasing demands of technological advancements and the drive for customer convenience. The Bank is scheduled to launch a number of technology-driven products and services including the new Corporate Website, Personal Online Banking (POB) for mobile banking transactions, an Anti-Money Laundering (AML) System covering more functionalities, a Trust System with broader product offerings, and a connected suite of solutions for wholesale banking.

ITSD forms an integral part of the five-year IT investment program which will move the Bank closer to its digital evolution. The program hopes to modernize bank processes and develop analytical capabilities to sharpen business intelligence. At the same time, the Bank will adopt technology to operationalize a 360-degree view of customers that will enhance customer experience and improve operational efficiency.

The use of open platforms in the workplace is fundamental in the Bank's digital transformation, as it will help improve connectivity in its customers and partners, and fortify innovation and collaboration in its workforce. Digital transformation, after all, is not merely the use of technology but the empowerment of people.

From 2019 onwards, ITSD aims to be the transitional driving force behind the Bank's next-level goal of providing distinct digitalized banking service.

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT DIVISION

Talent acquisition, learning and development, retention, compliance, and support to the businesses are still the priorities of Human Resources (HR).

There was a 5% growth in manpower as compared to 2017, at an overall headcount of 1,805. Recruitment's Share The Passion Referral Program ranked first among the candidate sources, followed by online recruitment searches. Partnerships with colleges and universities continued to be of value in providing the Bank with good, qualified candidates.

As part of the onboarding process, HR introduced the HR Buddy Program where each new hire is assigned an HR Buddy who will reach out to find out how they are during their first six months with the Bank, and assist them with any issues or concerns. The objective of the program is to decrease, if not eliminate, resignations within the first six months to one year, which had increased in the last two years.

The Bank continued to provide employees with core, functional, and leadership programs. One hundred percent of active employees as of December 31, 2018 have attended at least one training program, and 99% attended at least two programs conducted internally, externally, and online. Priority programs were focused on Branch Banking, Corporate Banking, and regulatory requirements.

To foster workplace camaraderie, the Bank sponsored sports and social activities throughout the year. Simultaneously, Bank employees participated in the San Miguel Group activities which gave them the opportunity to interact with employees of the different businesses. The annual Service Awards and Christmas Party were also held.

In support of the President's goal of growing the Bank, HR, together with IT, Branch Operations, Digital Channels, Consumer Protection, Operations, Credit Cards, Risk, Compliance, Business Systems, and Customer Care worked together to bring the Officers' Payroll from another bank to Bank of Commerce. This will mean additional income for the Bank in terms of CASA and electronic payment transactions, among others. Target completion of the project is end of first quarter 2019.

As the Bank promotes a culture of compliance, the governance key result area (KRA) was reviewed, and a merit and demerit system was introduced. The units involved in the project were Compliance, Audit, HR, Risk, Branch Banking, and Corporate Banking. Target completion of the Governance KRA will be in the first quarter of 2019, and implementation will be for the 2020 performance exercise.

The Department of Labor and Employment (DOLE), during its annual audit of the Bank, issued a Notice of Results stating there was no finding on General Labor Standards, Occupational Safety and Health Standards, and Security of Tenure. The audit covered the Head Office together with 62 branches in Metro Manila.

CORPORATE SOCIAL RESPONSIBILITY

The Bank remained steadfast in its commitment to foster community development while at the same time strengthening the spirit of volunteerism among employees. At the heart of the Bank's corporate social responsibility (CSR) activities were collaborations with volunteer employees and strategic partners in order to extend assistance to underprivileged communities and work towards the protection of the environment.

The year saw the Bank participating in various initiatives in cooperation with distinguished organizations. Through these partnerships, the Bank provided relief to displaced Filipinos, repainted and refurbished public school classrooms in time for the opening of the school year, participated in a coastal cleanup drive, and provided support to Filipino families living below the poverty line. In all these, volunteers showed genuine dedication to the tasks at hand, helping bring about change in the most meaningful ways, and spreading hope where it is needed the most.

TEAM MALASAKIT

DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT (DSWD) – RELIEF-PACKING ACTIVITY FOR MARAWI AND MAYON VOLCANO COMMUNITIES

Reaching out further to underprivileged communities, the Bank's volunteers participated in the Team Malasakit activities of San Miguel Foundation. These included the packing of relief goods for displaced families in Marawi who are recovering from the effects of terrorist insurgency, and those in Albay affected by natural calamity. Under the guidance of the Department of Social Welfare and Development (DSWD), volunteers arranged canned goods, rice, toiletries, and other basic necessities during the activity held at the National Resource Operations Center at the NAIA Compound in Pasay City.

BRIGADA ESKWELA

For the third consecutive year, the Bank participated in Brigada Eskwela, an annual CSR event organized by San Miguel Foundation and the Department of Education (DepEd). This was the foundation's biggest event in terms of volunteer count. The Bank's volunteers helped in the cleanup and repainting of classrooms at Corazon Aquino Elementary School in Batasan Hills, Quezon City, giving its students a comfortable place for learning and studying during the new school year. Brigada Eskwela is part of the DepEd's Adopt-a-School Project, which invites companies to support public senior high schools in the implementation of the K to 12 Program.

WORLD WIDE FUND FOR NATURE PHILIPPINES COASTAL CLEAN UP

This CSR initiative provided the opportunity for the Bank's volunteers to do their share in helping reduce plastic waste in our marine resources. Bank employees engaged in various activities at the Las Piñas Parañaque-Critical Habitat and Ecotourism Area to help curb the environmental degradation of the mangrove and wildlife areas in Manila Bay. The event is in line with the Global Coastal Cleanup intiative of the World Wide Fund for Nature Philippines (WWF-Philippines).

NO PLASTIC USE INITIATIVE

In accordance with San Miguel Corporation's directive to minimize usage of all types of plastic, the Bank makes a conscious effort to reduce the use of non-reusable and non-recyclable materials. Concrete steps were taken, including the packaging of corporate giveaways with recyclable materials, and the use and distribution of reusable utensils during CSR activities. These initiatives were aimed at reducing the eight million metric tons of plastic waste that end up in bodies of water every year.

INTERNATIONAL CARE MINISTRIES FOUNDATION, INC. - TRANSFORM AND FAMILY ACADEMY PROGRAMS

In line with sustaining community development initiatives, the Bank supported the Transform and Family Academy programs of the International Care Ministries Foundation, Inc. (ICMFI), which aim to strengthen and empower families living in extreme poverty. These capacity-building initiatives are specifically designed to meet the needs of Filipino families who live on less than PHP24 a day, suffer from chronic hunger and malnutrition, and live in inadequate shelters without basic utilities.

Family Academy takes a two-generational approach to early education through an eight-month program which provides educational supplies and training in math and phonics to empower parents to become their child's first teachers. To support the Family Academy program, employees started a donation drive to sponsor the health and values education of beneficiary families who rely mostly on farming or manual labor, and live in makeshift houses made of light materials. The curriculum included lessons on safe water, women's health and reproduction, and disease prevention. In terms of livelihood, participants were trained in product creation, small business skills, and savings group formation. A total of 105 participants availed of Business-in-a-Box loans with the necessary materials to start their own businesses.

Families also learned how to overcome feelings of hopelessness, passivity, and inferiority caused by living in poverty. With these lessons, they were able to foster positive attitudes and behaviors, which, in turn, enabled them to have better relationships with other families in their neighborhood.

As part of the Transform program, employees of the Bank volunteered to repack nutritious meals for families. These programs supported 140 underprivileged families living in Puerto Princesa City in Palawan, General Santos City in South Cotabato, and Bacolod City in Negros Occidental.

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 131 of the New Manual of Regulations for Banks. It is updated annually or when necessary because of significant changes in laws and regulations or best industry practices. Following the issuance of its recent amendment 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 practice 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. Aside from highlighting the Board of Directors' duties and responsibilities, it also contains the qualification of directors/independent directors.

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 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

units can refer to in determining if an account is a Related Party. The policy also defines guidelines for handling related party transactions, and the guidelines on ensuring arm's length terms, including conflicts of interest or potential conflicts of interest to ensure that related party transactions are entered into on terms not less favorable to the Bank and are consistent with the interest of the Bank and its shareholders. Furthermore, it 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. Armed with the duty of setting the policies for the accomplishment of corporate objectives, it also provides an independent check on Management. It is also the Board's responsibility to foster the long-term success of the Bank, and 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. They possess such qualifications and stature that enable each of them to effectively participate in the deliberations of the Board.

The Chairman of the Board provides leadership in the Board of Directors. He ensures effective functioning of the Board including maintaining a relationship of trust with members of the Board. Consistent with the Corporate Governance Principles under the MORB, the Chairman of the Board is an independent director who has not served as CEO of the Bank within the past three (3) years. In his absence, the Vice Chairman of the Board is responsible for overall governance. The Bank's Chief Executive Officer is responsible for day-to-day management of the Bank.

The Bank's Independent Directors, apart from possessing minimal shareholding, are independent of management and free from any business or other relationship with the Bank, other than transactions which are conducted at arm's length and could not interfere with their exercise of independent judgment when carrying out their responsibilities as directors. Further, they are not retained professional advisers or consultants of the Bank, not a nominee of any director or substantial stockholder, or member of any advisory board. Independent Directors only serve as such for a maximum cumulative term of nine (9) years reckoned from 2012, after which, they shall be perpetually barred from serving as Independent Directors but may continue to serve as a regular director of the Bank.

The Board has adopted guidelines on the maximum number of directorships in other entities 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 re-elected until 2017, when the two (2) year cooling-off period shall commence. If there are no suitable replacements, said independent directors may be re-elected in 2017 until 2021, at which time, they may no longer be qualified as independent directors for the same companies. The said re-election in 2017 until 2021 shall be with prior written notice and justification from the SEC.

Directors are 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 attend a program on corporate governance conducted by a duly accredited training provider by the BSP. To maintain their professional integrity, enhance their skills and knowledge, understand the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry and changes in regulatory landscape, members of the Board of Directors attend seminars, lectures or symposia as part of their continuing education or training. 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 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 2018, the Board held twelve (12) meetings

Composition	Attendance	%
Jose T. Pardo *Chairman, Independent Director*	12/12	100%
Francis C. Chua *Vice Chairman,* *Non-Executive Director*	11/12	92%
Roberto C. Benares* *Former President and CEO,* *Director*	9/12	75%
Amor C. Iliscupidez *Non-Executive Director*	11/12	92%
Marito L. Platon *Non-Executive Director*	12/12	100%
Fe B. Barin *Non-Executive Director*	11/12	92%
Rebecca Maria A. Ynares *Independent Director*	8/12	67%
Jose C. Nograles *Independent Director*	11/12	92%
Aniano A. Desierto *Independent Director*	12/12	100%
Melinda S. Gonzales-Manto *Independent Director*	12/12	100%
Benedicta Du-Baladad *Non-Executive Director*	11/12	92%
Alexander R. Magno *Non-Executive Director*	12/12	100%
Mariano T. Katipunan, Jr.** *Non-Executive Director*	8/8	100%
Ronnie U. Collado** *Non-Executive Director*	3/4	75%
Carolina G. Diangco*** *Non-Executive Director*	10/10	100%
Rolando Jose L. Macasaet*** *Non-Executive Director*	8/8	100%
Michelangelo R. Aguilar* *President and CEO,* *Director*	6/6	100%

** Roberto C. Benares retired as President and CEO effective July 15, 2018; Michelangelo R. Aguilar was hired as the President and CEO and elected as Director on July 16, 2018*
*** Ronnie U. Collado was replaced by the election of Mariano T. Katipunan as Director on April 20, 2018*
**** Carolina G. Diangco resigned on July 15, 2018; Rolando Jose L. Macasaet resigned on August 28, 2018 and was replaced by Carolina G. Diangco on September 15, 2018*

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	15	0.00%	
Francis C. Chua	1	10	0.00%	
Roberto C. Benares	1	5	0.00%	
Amor C. Iliscupidez	1	10	0.00%	
Marito L. Platon	1	8	0.00%	
Carolina G. Diangco	1	6	0.00%	Resigned June 2018 and re-elected September 2018
Melinda S. Gonzales-Manto	1	5	0.00%	
Aniano A. Desierto	1	5	0.00%	
Benedicta Du-Baladad	1	4	0.00%	
Fe B. Barin	1	4	0.00%	
Alexander R. Magno	1	4	0.00%	
Jose C. Nograles	1	2	0.00%	
Rebecca Maria A.Ynares	1	2	0.00%	
Ronnie U. Collado representing Caritas Health Shield, Inc.	1	10 months	0.00%	Resigned effective April 20, 2018
Mariano T. Katipunan representing Caritas Health Shield, Inc.	1	8 months	0.00%	Replaced Mr. R. U. Collado effective April 20, 2018
Rolando Jose L. Macasaet	1	12 months	0.00%	Resigned effective August 28, 2018
Michelangelo R. Aguilar	1	6 months	0.00%	Started June 26, 2018

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; Related Party Transactions Committee; and Information Technology Steering 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 be critical, fully understand and objectively evaluate the issues and promote healthy and objective discussions.

EXECUTIVE COMMITTEE

The Executive Committee (Excom) 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 five (25) meetings in 2018.

Composition	Attendance	%
Francis C. Chua *Non-Executive Director, Chairman*	22	88%
Roberto C. Benares *Non-Executive Director, Member*	19	76%
Amor C. Iliscupidez *Non-Executive Director, Member*	23	92%
Fe B. Barin *Non-Executive Director, Member*	22	88%
Carolina G. Diangco* *Non-Executive Director, Member*	14	93%
Michelangelo R. Aguilar** *Executive Director, Member*	9	90%

**Carolina G. Diangco was replaced by Roberto C. Benares on July 19, 2018*
***Appointed as Member on July 19, 2018 replacing Roberto C. Benares as President and CEO*

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 and one (1) special meeting in 2018.

Composition	Attendance	%
Melinda S. Gonzales-Manto *Independent Director, Chairman*	13	100%
Jose C. Nograles *Independent Director, Member*	13	100%
Aniano A. Desierto** *Independent Director, Member*	2	100%
Rebecca Maria A. Ynares *Independent Director, Member*	6	75%
Benedicta Du-Baladad *Non-Executive Director, Member*	13	100%
Ronnie U. Collado*** *Non-Executive Director, Member*	5	100%
Mariano T. Katipunan *Non-Executive Director, Member*	7	88%
Rolando Jose L. Macasaet* *Non-Executive Director, Member*	3	100%

**Rolando Jose L. Macasaet was replaced by Aniano A. Desierto effective March 1, 2018*
***Aniano A. Desierto was replaced by Rebecca Maria A. Ynares effective April 20, 2018*
****Ronnie U. Collado was replaced by Mariano T. Katipunan effective April 20, 2018*

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 2018.

Composition	Attendance	%
Jose C. Nograles *Independent Director, Chairman*	12	100%
Marito L. Platon *Non-Executive Director, Member*	12	100%
Melinda S. Gonzales-Manto *Independent Director, Member*	11/12	92%
Rebecca Maria A. Ynares* *Independent Director, Member*	7/9	78%
Benedicta Du-Baladad** *Non-Executive Director, Member*	1/2	50%
Rolando Jose L. Macasaet*** *Non-Executive Director, Member*	4/6	67%
Carolina G. Diangco *Non-Executive Director, Member*	2/3	67%

**Rebecca Maria A. Ynares was added as member in April 2018*
***Benedicta Du-Baladad was replaced by Rolando Jose L. Macasaet in March 2018*
****Rolando Jose L. Macasaet resinged in August 2018 and was replaced by Carolina G. Diangco in October 2018*

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 2018.

Composition	Attendance	%
Jose T. Pardo *Independent Director, Chairman*	12	100%
Marito L. Platon *Non-Executive Director, Member*	12	100%
Fe B. Barin *Non-Executive Director, Member*	12	100%
Jose C. Nograles *Independent Director, Member*	11	92%
Ronnie U. Collado* *Non-Executive Director, Member*	2	67%
Rebecca Maria A. Ynares** *Independent Director, Member*	1	100%
Aniano A. Desierto*** *Independent Director, Member*	8	100%

**Ronnie U. Collado was replaced by Rebecca Maria A. Ynares in April 2018*
***Rebecca Maria A. Ynares was replaced by Aniano A. Desierto in May 2018*
****Aniano A. Desierto replaced Rebecca Maria A. Ynares in May 2018*

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 2018.

Composition	Attendance	%
Jose T. Pardo *Independent Director, Chairman*	9	100%
Amor C. Iliscupidez *Non-Executive Director, Member*	9	100%
Alexander R. Magno *Non-Executive Director, Member*	9	100%
Aniano A. Desierto *Independent Director, Member*	9	100%
Rolando Jose L. Macasaet *Non-Executive Director, Member*	5	83%
Carolina G. Diangco* *Non-Executive Director, Member*	3	100%

**Carolina G. Diangco replaced Rolando Jose L. Macasaet in September 2018*

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 2018.

Composition	Attendance	%
Jose T. Pardo *Independent Director, Chairman*	12	100%
Amor C. Iliscupidez *Non-Executive Director, Member*	11	92%
Roberto C. Benares* *Non-Executive Director, Member*	5	71%
Alexander R. Magno *Non-Executive Director, Member*	12	100%
Amalia Q. Belarmino** *OIC-Chief Trust Officer, Member*	7	88%
Michelangelo R. Aguilar *Executive Director, Member*	5	100%
Gamalielh Ariel O. Benavides, *Chief Trust Officer, Member*	4	100%

**Roberto C. Benares was replaced by Michelangelo R. Aguilar as President and CEO in July 2018*
***Amalia Q. Belarmino was replaced by Gamalielh Ariel O. Benavides as Chief Trust Officer in September 2018*

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, three (3) of whom including the Chairman are independent and non-executive directors. It held ten (10) meetings in 2018.

Composition	Attendance	%
Aniano A. Desierto *Independent Director, Chairman*	10	100%
Melinda S. Gonzales-Manto *Independent Director, Member*	10	100%
Carolina G. Diangco* *Non-Executive Director, Member*	4	80%
Marito L. Platon *Non-Executive Director, Member*	10	100%
Rebecca Maria A. Ynares *Independent Director, Member*	6	60%
Roberto C. Benares *Non-Executive Director, Member*	3	60%

**Carolina G. Diangco was replaced by Roberto C. Benares in July 2018*

INFORMATION TECHNOLOGY STEERING COMMITTEE

The Information Technology Steering Committee (ITSC), as tasked by the Board of Directors, has the responsibility for IT oversight function to cohesively monitor IT performance and institute appropriate actions to ensure that the Bank's technology strategy and significant technology investments support the Bank's business needs, strategies and objectives.

Composition	Attendance	%
Michelangelo R. Aguilar *President and CEO, Director, Chairman*	6/6	100%
Roberto C. Benares* *Former President and CEO, Director, Member*	9/12	75%
Marito L. Platon** *Non-Executive Director, Member*	6/6	100%

**Roberto C. Benares was replaced by Michelangelo R. Aguilar as President and CEO and as ITSC Chairman in July 2018*
***Marito L. Platon was replaced by Roberto C. Benares as member in July 2018*

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 works fairly and objectively with the Board, Management, stockholders, and other stakeholders. She is aware of the laws, rules, and regulations essential to the performance of the duties and responsibilities, and ensures 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 directly 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, she has 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 Board Committee or to the Board, together with a recommendation to prevent any recurrence and pursue 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 and possesses sufficient stature and authority within the Bank. Without compromising his independence, the CRO has 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 AND SENIOR MANAGEMENT PERFORMANCE 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 within 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 performance of various committees and the individual director through self, peer, committee, and board evaluation system facilitated by the Corporate Governance Committee.

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.

The Senior Executive Team (SET) performance is also assessed annually by the President and CEO, except for the Heads of the independent units (Internal Audit Division, Compliance Division, Risk Management Division, and Trust Services Group), who are evaluated by their respective Board committees.

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. On an annual basis, 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 information gathered from respondents are collated into a succession Table of Organization/Plan of the Bank that is presented to the Nominations, Compensation, & Remuneration Committee (NCRC) and to the Board for notation.

PROCESS IN DETERMINING THE REMUNERATION OF THE PRESIDENT AND SENIOR OFFICERS OF THE BANK

The Bank has a salary structure in place that is used in determining the remuneration of all employees. Each rank has a minimum and a maximum pay rate. The hiring of senior officers with ranks of Assistant Vice President to President & CEO is presented to the Nominations, Compensation, & Remuneration Committee (NCRC) for evaluation of his qualification and fitness for the position and endorsed to the Board of Directors.

Remuneration of employees including the President and CEO and Senior Officers is determined on the basis of their current pay, scope of work, rank's performance, and the Bank's salary scale.

The Bank has an existing retirement program for its employees which was established and became effective in March 1990. 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.

TRAINING PROGRAM FOR DIRECTORS AND SENIOR MANAGEMENT

Directors and members of Senior Management undergo periodic training programs particularly focused on regulatory policy updates and requirements, typically the likes of anti-money laundering and terrorist financing. Members of the senior management team are required to take the AML and Information Security courses annually. Core, functional and leadership programs are also part of the Bank's training program.

RETIREMENT AGE OF BOARD AND SENIOR MANAGEMENT

The Directors are elected during the annual meeting of stockholders, or at any special meeting called for that purpose, and hold office for one (1) year and serve until their successors shall have been duly elected.

A retirement plan for all employees was established and became effective in March 1990 with amendments thereafter. Based on the Bank's retirement plan with amendments after 1990, the normal retirement age for all employees (including senior management) is 60 years old. The plan includes benefits on Early Retirement, Resignation, Death/Total and Permanent Disability, Optional Retirement and Involuntary Separation.

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 and materials for discussion. 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 subject to the limitations under banking laws, rules and regulations, 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, office 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

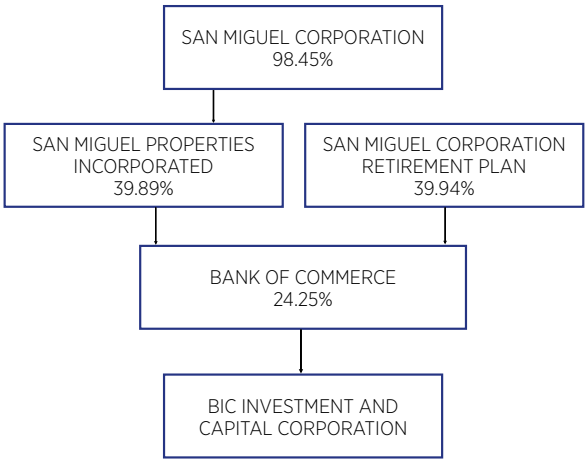
The Bank upholds its Code of Conduct. It regularly reviews this Code, updates it whenever necessary,

and communicates it to all the officers and employees of the Bank. To further strengthen compliance with this Code, the same 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



RELATED PARTY TRANSACTIONS

The Bank recognizes that certain transactions involving Related Parties present a heightened risk of conflicts of interests or the perception thereof. To ensure that transactions with Related Parties, as these terms are subsequently defined, are entered into at arm's length bases and are consistent with the Bank's and its stakeholders' best interests, the Bank has crafted a Related Party Transactions Policy that govern the handling of Related Party Transactions (RPTs) and created the Related Party Transactions Committee (RPTCom). The RPTCom assist the Board of Directors in fulfilling its corporate governance responsibility related to the safety and soundness of the Bank's financial transaction/s with Related Parties and ensures that such are conducted in accordance with market values.

Related Party Transactions at or above the materiality threshold set by the Bank are vetted by the RPTCom and approved by the Board of Directors. RPTs falling below the set threshold are vetted and approved by the designated approving authority/committee, subject to the notation of the RPTCom and confirmation of the Board.

All Related Party Transactions must be in accordance with guidelines prescribed in Bangko Sentral ng Pilipinas (BSP) Circulars 895 and 914 dated December 14, 2015 and June 23, 2016, respectively and the Corporate Governance Principles of the MORB. With respect to loans and other credit accommodations to the Bank's DOSRI, the requirements under in Sections 132 and 341 to 350 of the New MORB are strictly observed. Presented in Annex A (page 218) are material Related Party Transactions as of December 31, 2018.

BOARD OVERSIGHT ON THE EFFECTIVENESS AND ADEQUACY OF INTERNAL CONTROL

The control environment of the Bank consists of (a) the Board which ensures that the Bank is properly and effectively managed and supervised; (b) board committees that oversees the business operations, initiatives and control functions of the Bank; (c) a Management that actively manages and operates the Bank in a sound and prudent manner; (d) the organizational and procedural controls supported by effective management information and system; and (e) an independent compliance and risk management system and internal audit mechanism to assess the adequacy and effectiveness of the Bank's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

CONSUMER PROTECTION

Guided by the goal of aligning with the vision of the Bangko Sentral ng Pilipinas (BSP) to establish an inclusive financial system under BSP Circular 857, Bank of Commerce continues to strengthen its own Financial Consumer Protection Framework and pursue standardizing and institutionalizing the Bank's policies, practices, and structures that support compliance to financial consumer protection laws and regulations.

ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board of Directors and Senior Management are responsible and accountable for the development of the Bank's consumer protection strategy, the establishment of effective oversight over the Bank's consumer protection programs, and the overall compliance with its own financial consumer protection framework as embodied in the Bank's Financial Consumer Protection Manual. Their roles are delineated as follows:

BOARD OF DIRECTORS

- Approving and overseeing the implementation of the Bank's consumer protection policies as well as the mechanism to ensure compliance with said policies;
- Monitoring and overseeing the performance of Senior Management in managing the day-to-day consumer protection activities of the Bank; and
- Developing and maintaining a sound Consumer Protection Risk Management System (CPRMS) that is integrated into the overall framework for the entire product and service life-cycle.

SENIOR MANAGEMENT

- Implementing consumer protection policies approved by the Board of Directors;
- Managing the day-to-day consumer protection activities of the Bank; and
- Endorsing new or enhanced consumer protection policies and compliance mechanisms for approval of the Board of Directors.

Together, the Board of Directors and Senior Management perform the following:

- Periodically reviewing how findings are reported and how existing audit mechanisms enable or provide adequate oversight;
- Ensuring that sufficient resources are provided for the implementation of the Bank's financial consumer protection program;
- Periodically reviewing the effectiveness of the CPRMS; and
- Ensuring that any weakness identified in the CPRMS is addressed and corresponding enhancement or corrective action is taken in a timely manner.

Consumer Protection Risk Management System. One of the key components of the Bank's Financial Consumer Protection (FCP) Framework is a CPRMS. Through the CPRMS, the Bank demonstrates its commitment to ensure adherence to consumer protection laws, rules and regulations, and that all its business activities and that of its officers and staff are conducted with the highest ethical standards and in accordance with consumer protection standards of conduct.

The CPRMS is part of the Bank's corporate-wide risk management system. It is a means by which the Bank identifies, measures, monitors, and controls consumer protection risks inherent in its operations. It comprises the following:

- **Board and Senior Management Oversight.** The Board of Directors and Senior Management provide strategic direction and high-level support for the effective design, implementation, and continual improvement of the Bank's CPRMS. The more detailed roles are provided in the Bank's Financial Consumer Protection Manual.
- **Compliance Program.** The Bank's formal, written Compliance Program Manual covers financial consumer protection and follows the Revised Compliance Framework for Banks under BSP Circular 747.

- **Policies and Procedures.** Board-approved consumer protection policies and procedures are in place to ensure that consumer protection practices are embedded in the Bank's business operations, and to serve as reference for employees in complying with consumer protection laws, rules and regulations. In keeping with periodical review, the Bank released the updated Customer Complaint Management manual to all employees in February 2018.
- **Internal Audit Function.** The Bank's consumer protection audit program enables the Board and its designated committee to make an assessment of the effectiveness of the implementation of the financial consumer protection framework as well as the adequacy of approved policies and standards in meeting the established consumer protection objectives. In 2018, the Internal Audit Division (IAD) conducted a full scope audit of Financial Consumer Protection from October to November 2018. The audit aimed to assess the Bank's compliance to BSP Circular 857, and was performed according to the International Standards for the Professional Practice of Internal Auditing (ISPPIA).
- **Training.** Bank of Commerce believes in the continuing education of personnel as a means to strengthen and maintain compliance to consumer protection laws, rules, and regulations. All relevant frontline and support personnel, more specifically those whose roles and responsibilities have customer interface, are covered by the Bank's initiatives on consumer protection training. This initiative advocates for specific and comprehensive training to be received by these personnel in a timely manner in order to reinforce and help implement written policies and procedures on consumer protection. In 2018, the Human Resource Management and Development Division (HRMDD), in cooperation with Compliance Division, Risk Management Division, Branch Banking Group, and Product Development, Marketing Services and Credit Card Division (PDMCCD), ran e-learning programs/training sessions on Anti-Money Laundering & Counter Terrorist Financing, Information Security Awareness, and Product Briefing for Branches-Sales Standards Workshop. In the latter part of the year, HRMDD and PDMCCD initiated the development of a Financial Consumer Protection training module as part of the New Employees Orientation, the Bank's two-day on-boarding program for new hires.

CONSUMER ASSISTANCE MANAGEMENT SYSTEM

The Bank's enhanced customer complaint handling and redress mechanism conforms to the BSP's requirements for an effective Consumer Assistance Management System (CAMS). Through this mechanism, the Bank aims to address the need for accessible, affordable, independent, fair, accountable, timely, and efficient means in resolving customers' complaints with their financial transactions.

- **Board and Senior Management Oversight.** The Bank's complaint handling process, as embodied in its Customer Complaint Management Manual, covers the channels and responding units which complaints may be coursed through. The Customer Care Manager (CCM) is the central figure responsible for overseeing customer care and complaint handling performed by units administering the Bank of Commerce Hotline, head office units, and branches. The CCM also closely monitors critical complaints and ensures their quick resolution. Periodically, the CCM submits a complaint report for discussion in the meetings of the Senior Executive Team, the Board Risk Oversight Committee (BROC) and the Corporate Governance Committee.
- **Complaints Resolution Turn-Around Time.** For efficient resolution of complaints, the Bank categorizes them as follows:
  i. *Simple Complaints* are complaints that may be given immediate solution, possibly at point of

call or within five (5) working days from date of call.

ii. *Complex Complaints* are complaints that may require more than five (5) working days to resolve as further investigation/study by the concerned unit/s is needed.

The customer complaint handling flow is generally the same for the three channels (Bank of Commerce Hotline, Branch, and Head Office unit), but with some variation as to the receiver and mode of filing for escalation and reporting purposes.

CHANNEL	RECEIVER/ RESPONDING PERSON	FILING
Branches	Branch Manager (BM)/ Branch Operations Officer (BOO)/ Branch Marketing Officer (BMO)	Customer Complaint Form (CCF)
Head Office (HO)	Department Head/ Division Head/ Group Head	CCF
customerservice @bankcom.com.ph	Customer Care Manager (CCM)/ E-Services Officer	Ticketing system
Phone call through the BOC Hotline	Bank's Customer Care Agents (CCAs)/ Customer Care/ In-House Employees	Ticketing system
Media/BSP	CCM	Ticketing system

For each complaint received, the designated Receiver/Responding Person records details about the client and the nature of complaint. If the resolution is immediately available, the Receiver/Responding Person gives the client the appropriate response. However, if the client remains dissatisfied, the client is then provided with a tracking number and processing turn-around time (TAT), and the complaint is escalated to the concerned unit or person. The Receiver/ Responding Person monitors the unit's progress and upon resolution of the complaint, closes it.

The time frame for the investigation and formulation of an answer to a complaint is as follows:

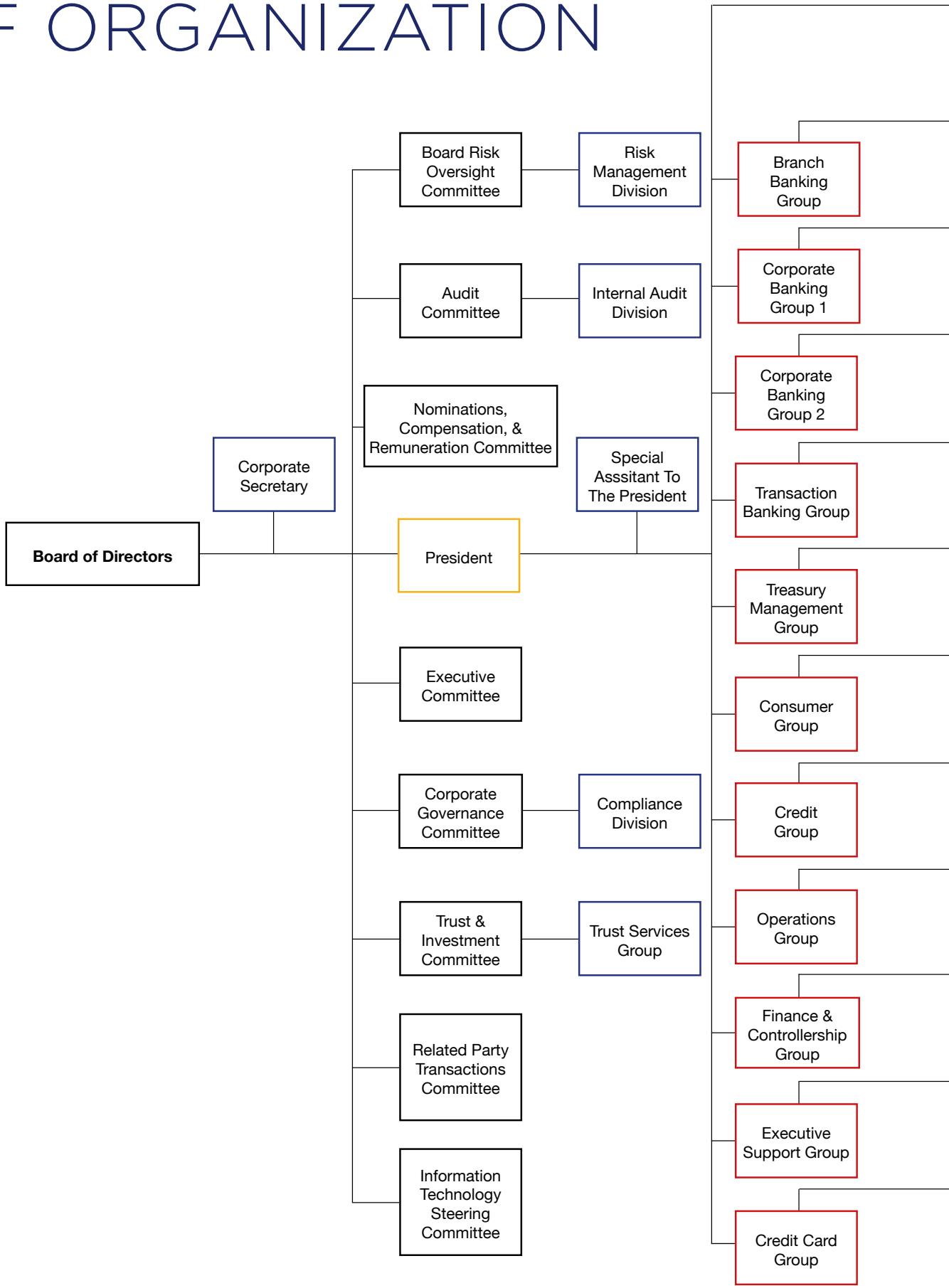
ACTION REQUIRED	SIMPLE	COMPLEX
Response	Within two (2) banking days from receipt of complaint	Within two (2) banking days upon receipt of complaint
Processing, assessment, investigation and resolution	Within five (5) working days from receipt of complaint	Within fifteen (15) working days upon receipt of complaint

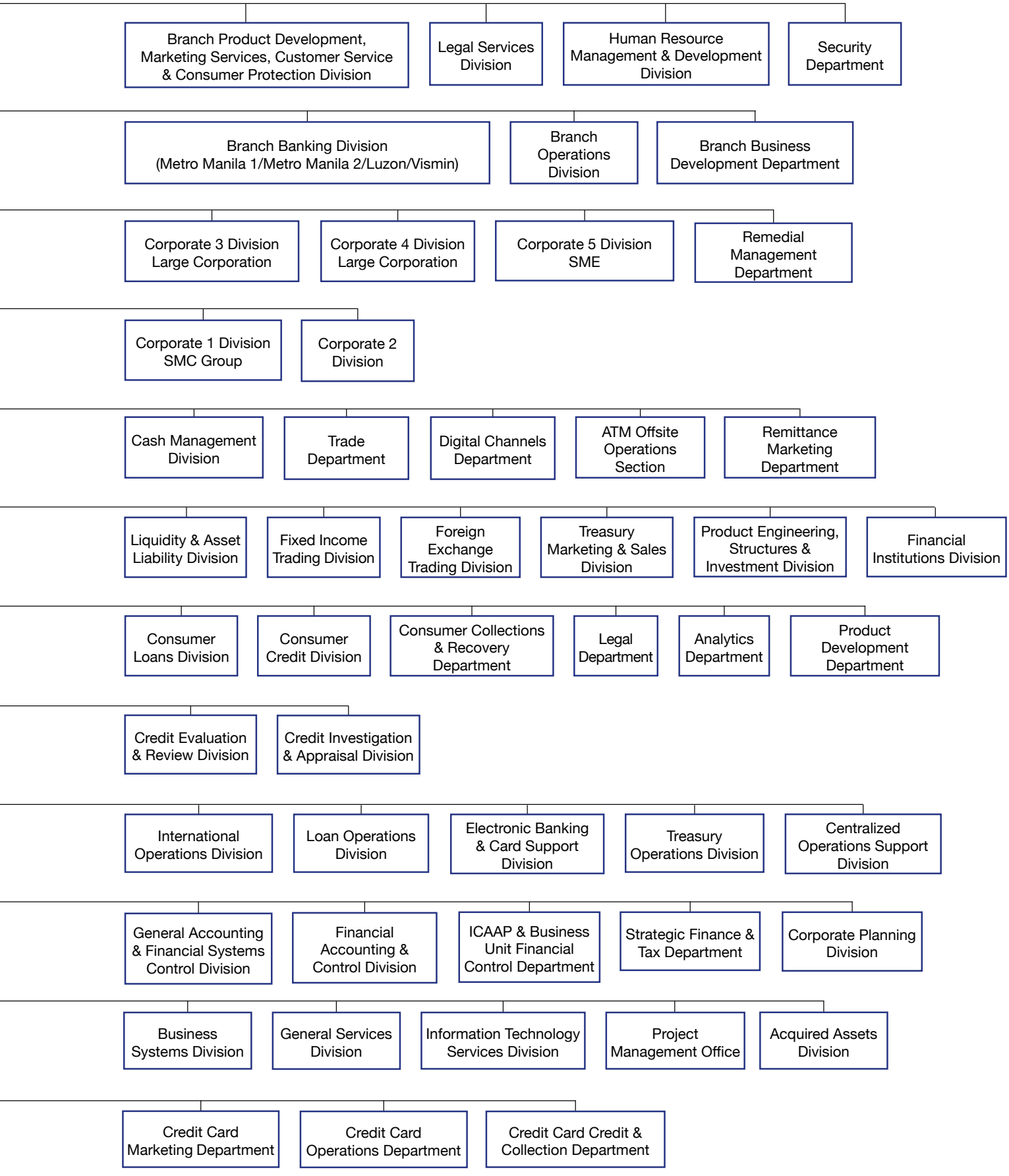
If the investigation and formulation of resolution cannot be completed at the committed time frame, the client is informed by the concerned unit of the reason thereof, the need for an extension for the investigation and the date when the solution would be provided.

Financial Education and Awareness. In parallel to its consumer protection training initiatives, the Bank ran a financial education awareness campaign for customers in 2018. The thrust of the campaign was how a customer can protect his/her debit or credit card transactions. This was in line with the launch of the Bank of Commerce Debit Card product and new security features such as the Bank of Commerce Online Protect (i.e., one-time PIN used in the e-commerce or mobile apps). The Bank sent out the following advisories via electronic channels, which are the more cost-effective media:

- Protect Your Debit Card
- Be Vigilant Against Card Fraudsters
- Everyday, Cashless Shopping with Bank of Commerce Debit Card
- Get a Better Grip on Your Expenses with Bank of Commerce Debit Card
- Bank of Commerce Online Protect
- Bank of Commerce Credit Card Security Tips
- Update Your Mobile Number for Secure Credit Card Online Transactions

TABLE OF ORGANIZATION




Branch Product Development, Marketing Services, Customer Service & Consumer Protection 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
Branch Business Development Department
Corporate 3 Division Large Corporation
Corporate 4 Division Large Corporation
Corporate 5 Division SME
Remedial Management Department
Corporate 1 Division SMC Group
Corporate 2 Division
Cash Management Division
Trade Department
Digital Channels Department
ATM Offsite Operations Section
Remittance Marketing Department
Liquidity & Asset Liability Division
Fixed Income Trading Division
Foreign Exchange Trading Division
Treasury Marketing & Sales Division
Product Engineering, Structures & Investment Division
Financial Institutions Division
Consumer Loans Division
Consumer Credit Division
Consumer Collections & Recovery Department
Legal Department
Analytics Department
Product Development 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
Corporate Planning Division
Business Systems Division
General Services Division
Information Technology Services Division
Project Management Office
Acquired Assets Division
Credit Card Marketing Department
Credit Card Operations Department
Credit Card Credit & Collection Department

BOARD OF DIRECTORS

JOSE T. PARDO
Chairman
Independent Director

FRANCIS C. CHUA
Vice Chairman
Non-Executive Director

MICHELANGELO R. AGUILAR
President and Chief Executive Officer
Executive Director

ROBERTO
C. BENARES
Former President and CEO
Non-Executive Director

AMOR
C. ILISCUPIDEZ
Non-Executive Director

MARITO
L. PLATON
Non-Executive Director

BENEDICTA
DU-BALADAD
Non-Executive Director

JOSE
C. NOGRALES
Independent Director

CAROLINA
G. DIANGCO
Non-Executive Director

MELINDA S.
GONZALES-MANTO
Independent Director

MARIANO
T. KATIPUNAN, JR
Non-Executive Director

FE
B. BARIN
Non-Executive Director

ALEXANDER
R. MAGNO
Non-Executive Director

ANIANO
A. DESIERTO
Independent Director

REBECCA MARIA
A. YNARES
Independent Director

AURORA
T. CALDERON
Adviser

FERDINAND
K. CONSTANTINO
Adviser

MARGARITO
B. TEVES
Adviser

CECILE
L. ANG
Adviser

ANTONIO
M. CAILAO
Adviser

EVITA
C. CABALLA
Corporate Secretary

JOSE T. PARDO

Chairman, Independent Director

Filipino, 79 years old

Jose T. Pardo, an Independent Director of the Board of Directors of Bank of Commerce, currently serves as Chairman of the Board since July 19, 2011. He provides firm guidance and insights on concretizing the Bank's mission and vision towards continuous nation-building and development. Concurrently, Mr. Pardo heads the following Committees of the Bank: Trust and Investment Committee (TIC), Nomination, Compensation & Remuneration Committee (NCRC), and Corporate Governance Committee (CGCom). Mr. Pardo's vast career experience in banking and finance spans government and private sectors, as former Monetary Board Member of the Bangko Sentral ng Pilipinas (BSP), as former Governor for the Philippines of the Asian Development Bank (ADB) and the World Bank Group, and as former Cabinet Secretary of the Department of Finance and Department of Trade & Industry. He previously held Chairmanship positions in the Landbank of the Philippines (LBP), Philippine Deposit Insurance Corp. (PDIC), PCCI Council of Business Leaders, De La Salle University and Assumption College, Inc., among others.

Currently, he chairs the following companies as Independent Director: Securities Clearing Corporation of the Philippines, The Philippine Stock Exchange, Philippine Seven Corporation, and Philippine Savings Bank. Among his independent directorships are: National Grid Corporation of the Philippines, JG Summit Holdings Inc., ZNN Radio Veritas, Synergy Grid and Development Phils., Inc., Monte Oro Grid Resources Corporation, Araneta Hotels, Inc., and League One Finance and Leasing Corporation. He holds a degree in B.S. Commerce and has a Masters Degree in Business Administration and an Honorary Doctorate in Finance from De La Salle University. He was conferred the degree Doctor of Humanities, Honoris Causa at the Gregorio Araneta University Foundation.

FRANCIS C. CHUA

Vice Chairman, Non-Executive Director

Filipino, 70 years old

Amb. Francis C. Chua has been a member of the Board of Directors of Bank of Commerce (the "Bank") since May 20, 2008, and sits as Vice Chairman from 2013 to present. Mr. Chua chairs the Executive Committee (Excom) of the Bank. With his constant feedback and insights on best banking practices, he has been instrumental in promoting the Bank in the business community and in marketing its products and services. Amb. Chua continuously serves in the Philippine Chamber of Commerce & Industry, Inc. (PCCI), as Consul General conferred by the Honorary Consulate General of the Republic of Peru in Manila since 2006, and as Board Adviser of the Office of Alternative Dispute Resolution under the Department of Justice. He was the Special Adviser on Economic Affairs under the Office of the Speaker of the House of Representatives, Congress of the Philippines since 1997. He is Honorary Trade & Investment Representative of the Department of Trade & Industry, appointed Commissioner in the Constitutional Commission, Board of Trustee of Technical Education and Skills Development Authority (TESDA) and Special Envoy on Trade and Investment (China) of the Department of Foreign Affairs since 2007. He is a member of the Board of Directors of the Philippine Stock Exchange where he previously served as Treasurer.

He currently serves as Special Adviser to the President of BA Securities Inc., a member of the Board of Directors of the National Grid Corporation of the Philippines (NGCP), Global Ferronickel, Inc., and Platinum Group Metals Corp. He holds the Chairmanship of CLMC Group of Companies and Dongfeng Automotive Inc. and serves as Vice Chairman of Negros Navigation/2Go. He is the Vice Chairman of Basic Energy and Mabuhay Satellite Corp., and President of the Philippine Satellite Corp. He obtained his degree in B.S. Industrial Engineering (Cum Laude) from the University of the Philippines and was conferred Doctor in Humanities from Central Luzon State University.

MICHELANGELO R. AGUILAR

President and CEO, Executive Director

Filipino, 62 years old

Mr. Michelangelo R. Aguilar was elected member of the Board of Directors and appointed President and Chief Executive Officer (CEO) of Bank of Commerce (the "Bank") on July 16, 2018. He chairs the Information Technology Steering Committee (ITSC) and is a member of the following committees: Executive Committee (Excom), and Trust and Investment Committee (TIC).

Mr. Aguilar brings with him over 35 years of banking experience in the areas of Corporate and Investment Banking, Global Markets and Treasury. He has 22 years of experience with international banks starting his career as an Executive Trainee at Citibank Philippines and rising through the ranks in the areas of Banking Operations, Treasury and Sovereign Risk. He continued to hold senior positions as Country Treasurer and then as Managing Director and Head of Wholesale Bank at Standard Chartered Philippines. For 13 years prior to joining the Bank, he was Treasurer and Head of Corporate Banking in two major local banks, respectively. He graduated with a degree in Bachelor of Science in Mechanical Engineering from De La Salle University and later acquired a Masters Degree in Business Management from the Asian Institute of Management. He is a licensed Mechanical Engineer and a Certified Treasury Professional by the Bankers Association of the Philippines (BAP).

ROBERTO C. BENARES

Former President and CEO, Non-Executive Director

Filipino, 66 years old

Mr. Roberto C. Benares has been elected as member of the Board of Directors of Bank of Commerce (the "Bank") since April 30, 2013. He assumed his position as President and CEO of Bank of Commerce on August 1, 2013 and was succeeded by Mr. Michelangelo R. Aguilar on July 16, 2018. He currently sits as Director and is a member of the following Committees: Executive Committee (Excom), Related Party Transaction Committee (RPTCom) and Information Technology Steering Committee (ITSC). During his tenure as President and CEO, he took the lead in strengthening the Bank by framing its superior service culture to achieve its recent milestones.

Previously, Mr. Benares was the Managing Director of Maybank ATR Kim Eng Capital Partners, Inc. He started his banking career at Bancom Development Corp. as Assistant Treasurer prior to holding the position of Vice President of Account Management at United Coconut Planters Bank. He also served as Managing Director at Asian Alliance, Executive Vice President at Insular Investment & Trust Corporation, and Vice President at Philamlife. He holds a degree in Bachelor of Science in Mechanical Engineering from De La Salle University and has a Masters Degree in Business Management at the Asian Institute of Management.

AMOR C. ILISCUPIDEZ

Non-Executive Director

Filipino, 67 years old

Ms. Amor C. Iliscupidez has been a Director of Bank of Commerce since April 2008 and is a member of its Executive Committee (Excom); Trust and Investment Committee (TIC); and Nominations, Compensation, and Remuneration Committee (NCRC). She also serves as Director of the Philippines Stock Exchange (PSE) since April 2006. She is a member of the PSE's Audit, Corporate Governance, Risk Management and Investment Committees. She brings with her more than 15 years of investment, assurance, banking and finance experience and has been a Director of the Securities Clearing Corporation of the Philippines and a member of its Audit Committee and Risk Management Committee since January 2011. She was a Director of Capital Management Integrated Corporation from July to September 2013.

She was a member of the Board of Trustees of San Miguel Corporation Retirement Plan and other subsidiaries from February 2006 to June 13, 2018. She was the General

Manager of San Miguel Corporation Retirement Funds Office since February, 2006 up to June 30, 2017. She was also the General Manager at Anchor Insurance Brokerage Corporation from 2003 to 2005 and was Assistant Vice President and Manager of the SMC Group Financial Services from 2001 to 2003. Ms. Iliscupidez was also Finance Manager of other subsidiaries and business units of San Miguel Corporation. She graduated Cum Laude with a Bachelor of Science degree in Business Administration, major in Accountancy, from the University of the East and is a Certified Public Accountant.

MARITO L. PLATON

Non-Executive Director

Filipino, 65 years old

Mr. Marito L. Platon was elected last April 30, 2010 as member of the Board of Directors of Bank of Commerce (the "Bank"). He is currently a member of the Corporate Governance Committee (since 2010), Board Risk Oversight Committee (since 2015, former Chairman), Related Party Transaction Committee (since 2016), Information Technology Steering Committee (2017-2018) and Audit Committee (2010-2014). Mr. Platon has been the driving force behind the consistent growth of the Bank's business in partnership with clients. He is also the Chairman (since 1993) of Villa Maria Resorts & Development Corporation, a tourism and real estate development company.

Mr. Platon brings with him over thirty (30) years of rural banking experience at Board level at Rural Bank of Talisay (Batangas), Inc. as Chairman and/or President (2000 to 2010) where he also served as Board Director and Chairman/Vice Chairman/Member of various Board oversight committees. He has over twenty-five (25) years of corporate finance and treasury experience at San Miguel Corporation and Coca-Cola Bottlers Philippines, Inc. (CCBPI) as Vice President and Treasurer (1995-2000), as Managing Trustee of CCBPI Retirement Plan (1990-2000), and as Managing Director of CCBPI-owned real-estate companies, viz., Marangal Properties, Inc. and Luzviminda Landholdings, Inc. (1989-2000). He has more than fifteen (15) years of Board-level experience in investment banking, corporate leasing, security services, aquaculture, land investment, food retailing and internal auditing. He was the Director at Corporate Investments Philippines, Inc., Corporate Finance Philippines, Inc. (2005-2009); Chairman/President, St. Charles Security Services, Inc., (2001-2009); Director, Paragon Security Services Inc. (2000-2005); Director at Taal Agro Resources, Inc., Silver Bay Aquaculture Corp., Ace Orient Inc., Capricorn Resources, Inc., PM Foods, Inc., and as Internal Audit Consultant at MVR and Associates, Inc. (various dates till 2009). Mr. Platon is a member of the Financial Executives Institute of the Philippines (FINEX). Previously, he was a member of the Risk & Insurance Management of the Philippines (former President), Tax Management Association of the Philippines, Credit Management Association of the Philippines, Philippine Society for Industrial Security, Inc., and Institute of Esoteric Studies (former President). He holds a degree in Bachelor of Science in Commerce, Major in Accounting, De La Salle University – Manila (1973).

BENEDICTA DU-BALADAD

Non-Executive Director

Filipino, 57 years old

Ms. Benedicta A. Du-Baladad has been a member of the Board of Directors of Bank of Commerce (the "Bank") since January 31, 2014 and is a member of the Audit Committee. She was previously a member of the Bank's Board Risk Oversight Committee (BROC) from 2014-2017. She is the Founding Partner and CEO of Du-Baladad and Associates (BDB Law), a law firm specializing in taxation and related corporate services. Ms. Du-Baladad has over 30 years of practice in the field of taxation, 17 years of which was spent with the Bureau of Internal Revenue (BIR) working on tax administration policy development and in operations. In 2001, she joined the private sector and is now on her 16th year of private practice. She has authored three (3) books on the taxation of the financial sector.

She is currently the lead tax and legal consultant of the Philippine Government's Department of Finance

(DOF) on its program to reform the taxation of capital income and financial intermediation services. She holds the leadership role in major professional and business organizations in the country such as the Financial Executives of the Philippines (FINEX), the Management Association of the Philippines (MAP), the Philippine Chamber of Commerce and Industry, the Tax Management Association of the Philippines (TMAP), and the Women Business Council of the Philippines (Womenbiz). Ms. Du-Baladad is a Certified Public Accountant, graduated Magna Cum Laude with a Bachelor's Degree in Accountancy from Saint Louis University, Baguio, Philippines (1982) and holds a Bachelor of Laws degree from the University of Santo Tomas, Manila, Philippines (1989). Her educational background includes Advanced Management Program at Wharton School of the University of Pennsylvania, Pennsylvania, USA (2007) and Master of Laws and International Tax Program at the Harvard University, Cambridge, MA, USA. She is a fellow at the Institute of Corporate Directors. She is also the Philippine correspondent of Tax Notes International and is a regular columnist of the Business Mirror's Tax 'Law for Business' and a professorial lecturer of taxation at the University of Santo Tomas (UST).

JOSE C. NOGRALES

Independent Director

Filipino, 69 years old

Mr. Jose C. Nograles has been an elected member of the Board of Directors of Bank of Commerce (the "Bank") since April 20, 2015. He chairs the Bank's Board Risk Oversight Committee (BROC) and serves as a member of the following Committees: Audit Committee and Corporate Governance Committee (CGCom). He continues to be a strict advocate of the Bank's conscientious and efficient use of resources towards sustainable care for the environment. A seasoned investment banker and economist, Jose C. Nograles was President of the Philippine Deposit Insurance Corporation (PDIC) from January 2008 to May 2011 where he led PDIC's transformation to a more responsive and innovative institution. Previously, he was the Senior Executive Vice President of the Land Bank of the Philippines (LBP). In 2005, he headed LBP's Operations and Corporate Services Sector. Five years earlier, as Senior Vice President and Treasurer, he organized LBP's combined Treasury and Investment Banking. He was also concurrently Board Vice-Chairman and President of Land Bank Insurance Brokerage Inc., LBP's subsidiary engaged in insurance brokerage and foreign exchange trading.

Mr. Nograles started his career in 1969 as part of the management services staff of SGV and Company. By 1973, he worked in government as a Senior Consultant to former Secretary Arturo R. Tanco, Jr. of the Department of Agriculture and Natural Resources. After three years, he rejoined the private sector as General Manager of Sarmiento Management Corporation. He moved to Anflo Management & Investment Corporation as Vice President in 1977 to head its Automotive Group of car dealerships and the Corporate Planning Department. He later founded his family's realty company engaged in commercial building and hotel operations in Davao City in 1980. In 1984, he was appointed Assistant Minister for Planning and Project Management of the Ministry of Natural Resources. In 1991, he joined Columbian Autocar Corporation as Vice President and General Manager. He obtained his BA in Economics with honors (Cum Laude) from the Ateneo de Manila University in 1969 and his Masters Degree in Business Administration from the Asian Institute of Management in 1973. He is a fellow of the Institute of Corporate Directors.

CAROLINA G. DIANGCO

Non-Executive Director

Filipino, 75 years old

Ms. Carolina G. Diangco has been a member of the Board of Directors of Bank of Commerce (the "Bank") since April 2012. She is a member of the Related Party Transactions Committee (RPTCom) and Nominations, Compensation, and Remuneration Committee (NCRC) and previously, of the Executive Committee (Excom), Board Risk Oversight

Committee (BROC), and Audit Committee. Ms. Diangco is currently also a member of the Board of Directors of Cocolife Asset Management Co., Inc., and UGPB General Insurance Co., Inc. since 2009.

Since 1998, she has been a member of the Board of Directors of United Coconut Planters Life Assurance Corp. and sits as an executive member in its Executive Committee, Finance and serves as the Chairperson of the Audit Committee. She was a member of the Board of Directors of the United Coconut Planters Bank (UCPB) from 2002 up to 2007 where she served as executive member of the Loans Committee and the Chairperson of the Audit Committee. She held various senior positions in UCPB Rural Bank, as member of the Board of Directors; CIIF Finance Corporation, UCPB Foundation and UCPB Securities, Inc., as Treasurer; and as Controller in Mastercaterers, Inc., UCPB Condominium Corporation and UCPB Properties, Inc. From UCPB, she brings with her 38 years of core banking experience rising from the ranks to Senior Vice President-Controller upon retirement in 2002. Ms. Djangco also served as consultant at Central Visayas Finance Corporation (CVFC) taking an advisory role on over-all management and controllership of the company and was conferred to on aspects of Accounting, Treasury, Credit Cards and Risk Management from 2004 to 2015. She holds a degree in B.S. Business Administration Major in Accounting at the University of the Philippines and is a Certified Public Accountant.

MELINDA S. GONZALES-MANTO

Independent Director

Filipino, 66 years old

Ms. Melinda S. Gonzales-Manto (Linda) has been a member of the Board of Directors of Bank of Commerce (the "Bank") since January 2014. She currently Chairs the Audit Committee and serves as member of the Related Party Transactions Committee (RPTCom) and Board Risk Oversight Committee (BROC). She is currently the Vice-President of Linferd & Company, Inc. and ACB Corabern Holdings Corporation. She likewise sits in the board of Eagle Cement Corporation (Eagle Cement) and Petrogen Insurance Corporation. She functions as Chairman of the Audit Committee and member of the Corporate Governance Committee of Eagle Cement. She used to be a board member of the GSIS Family Bank. Ms. Manto is also the Resident Agent of some multinational companies in the country.

Ms. Gonzales-Manto started her career in SyCip, Gorres, Velayo & Co. (SGV). Her stint in the audit corporate world lasted for more than three decades. She retired as a Partner in the Assurance and Advisory Business Services Division of SGV. While in SGV, she served as the Head of the Consumer Products Industry for Asia and the Pacific of SGV/Ernst & Young Philippines and SGV/Arthur Andersen. Wanting to expand her horizon, she also functioned as a board member and auditor of the Philippine Retailers Association for almost a decade. She was previously assigned to the Cincinnati Office of Arthur Andersen in Ohio where she spearheaded the audit engagements of manufacturing and retail clients. She finished elementary and high school as valedictorian and graduated cum laude with a degree of Bachelor of Science in Business Administration, major in Accounting at the Philippine School of Business Administration. She is a Certified Public Accountant and a lifetime member of the Philippine Institute of Certified Public Accountants. She has completed the Management Development Program at the Asian Institute of Management.

MARIANO T. KATIPUNAN, JR.

Non-Executive Director

Filipino, 68 years old

Mr. Mariano T. Katipunan, Jr. was first elected into the Board of Directors of Bank of Commerce in May 2015 as nominee of Caritas Health Shield, Inc. He also served as a member of the Bank's Audit and Corporate Governance committees. He was replaced by Mr. Ronnie U. Collado in June 2017. He was elected again as Director in April 2018. He is currently a member of the Bank's Audit Committee.

Mr. Katipunan brings with him an extensive experience in finance and controllership having been Treasurer and

Chief Finance Officer of Caritas Health Shield since its inception in 1995. He oversaw the company's financial position, resources, and fund management including its trust fund/reserves and overseas investments. He was elected President and Chief Executive Officer in April 2018. Mr. Katipunan has likewise been Managing Director of Megacenter Diagnostic Corp. since its establishment in 1994. He was an Investment Account Officer of Equitable Financial Services in Edison, New Jersey from 1984 to 1986. He was Vice President & Division Head for Account Management Group at the International Corporate Bank in Makati from 1977 to 1983. He also previously handled account management at Citytrust Banking Corporation and market research at Far East Bank and Trust Company. Mr. Katipunan was once an instructor in Business Management and Finance at the Ateneo de Manila University and in Economics and Mathematics at the St. Theresa's College in Quezon City. He holds a degree in Bachelor of Arts in Economics (Honors Course) and graduated with Honors in 1972 from the Ateneo de Manila University. In addition, he has a Masters Degree in Business Management from the Asian Institute of Management (1975). He underwent training at the Foreign Exchange/Bullion Trading & Money Market departments of the Swiss Bank Corporation in New York City from 1983 to 1984 and at Citibank, N.A. in Binondo, Manila under its Executive Development Program in 1975.

FE B. BARIN

Non-Executive Director

Filipino, 85 years old

Ms. Fe B. Barin has been a member of the Board of Directors of Bank of Commerce (the "Bank") since April 24, 2014, and currently sits as member of the Executive Committee (Excom) and Corporate Governance Committee (CGCom). Ms. Barin's career in the government service has been in the regulatory and supervisory agencies. She spent more than 40 years at the Central Bank of the Philippines (Bangko Sentral ng Pilipinas) as secretary of the Monetary Board for 25 years and the last two years as a full time member of the Monetary Board. She was appointed as Chairman of the Securities and Exchange Commission (SEC) for a seven-year term and she was ex officio member of the Anti-Money Laundering Council as well as of the Credit Information Corporation. She became the Chairman of the Energy Regulatory Commission in 2001 under RA 9136 upon its creation. Ms. Barin served for three years at the Philippine Deposit Insurance Corporation (PDIC) as Assistant Legal Counsel early in her career.

She graduated from the U.P. College of Law in 1956, passed the Bar Examinations on the same year and was admitted to the Philippine Bar in 1957. She is an active member of the Integrated Bar of the Philippines (IBP), Women Lawyers Circle, the Philippine Bar Association and the Philippine Constitutional Association (PHILCONSA). She is currently a member of the Board of Trustees of the Institute of Corporate Directors.

ALEXANDER R. MAGNO

Non-Executive Director

Filipino, 64 years old

Mr. Alexander R. Magno became a member of the Board of Directors of Bank of Commerce (the "Bank") in August 01, 2014 and currently sits as a member of Trust and Investment Committee (TIC) and Nominations, Compensation, and Remuneration Committee (NCRC). He consults for both the Department of Finance and the Steel Asia Manufacturing Corporation. Mr. Magno's career best describes him as a policy advocate, public intellectual and an activist. He served as a member of the Board of the Development Bank of the Philippines, helping supervise such programs as the Nautical Highway System from 2001 to 2010. After the EDSA Revolution, he served as interim director of the President's Center for Special Studies, a think tank put together during the Marcos period which supplied regular briefing papers for President Corazon Aquino. He helped establish the Foundation for Economic Freedom (FEF), a research and advocacy institution proposing market-driven economic policies providing research for key liberalization policies including the Liberalization of

the Retail Trade, the Electricity Power Industry Reform Act and the Procurement Law. He consulted for the privatization program of the Metropolitan Waterworks and Sewerage System (MWSS) and the liberalization of the telecommunications sector. In 2005, he was appointed Commissioner of the Consultative Commission on Charter Change and served as a commissioner of the EDSA People Power Commission.

His social activism during the martial law led to his career as an instructor of political science at UP Diliman. Mr. Magno supported student representation in 1975, winning a seat at the UP Student Conference and served as Vice Chairman of the organization. Mr. Magno had regular editorial columns at the Manila Times, the Manila Chronicle, and the Manila Standard. He remains an important columnist at the Philippine Star since 2003 and his columns became main reference points for building democratic and reformist public opinion.

ANIANO A. DESIERTO

Independent Director

Filipino, 83 years old

Mr. Aniano A. Desierto has been elected as member of the Board of Directors of Bank of Commerce (the "Bank") since July 26, 2013. He currently chairs the Bank's Related Party Transactions Committee (RPTCom) and is a member of the Corporate Governance Committee (CGCom); and Nominations, Compensation, and Remuneration Committee (NCRC). Mr. Desierto is currently a Legal Consultant in Petron Corporation, likewise Principal Consultant at the Desierto and Desierto Law Firm, Vice President of the Philippine Constitution Association, and a member of the Paul Haris and Rotary Club.

Notably, he embodies legal, political and government expertise having served five (5) administrations as government prosecutor. He was the Ombudsman of the Republic of the Philippines from 1995 until 2002. He previously was The Special Prosecutor (formerly Tanodbayan) between 1991–1995, Deputy Chief Judge Advocate General in 1988 to 1991 and Chief Prosecutor of the Armed Forces of the Philippines in 1978–1988. He also held the position of Provincial Division Manager at the Manila Broadcasting Corporation from 1967 to 1972. He brings with him various experiences in other fields as a marketing consultant and as a member of the Board of Directors of several companies. He was the Chairman of the PNOC Development and Management Corporation from 2004 up to 2005. He was Program and Production Manager in 1961 to 1967 at the Cebu Broadcasting Company and he was Proprietor and Director of the Top Promotion, Inc. and Top Taxi Company in Cebu City. He also held the position of Provincial Division Manager at the Manila Broadcasting Corporation from 1967 to 1972. He received various awards and commendations as a government official and Ombudsman. He holds Bachelor of Laws and Bachelor of Arts degrees from the University of the Philippines, Bachelor of Management and Marketing Courses at the Ateneo University and Associated in Arts (Pre-Law) at the University of San Carlos, Cebu City.

REBECCA MARIA A. YNARES

Independent Director

Filipino, 42 years old

Ms. Rebecca Maria A. Ynares has been a member of the Board of Directors of Bank of Commerce (the "Bank") since July 2016. She currently serves as member of its Related Party Transactions Committee (RPTCom), Board Risk Oversight Committee (BROC), and Audit Committee. Ms. Ynares manages the following family-owned endeavors TJCMB Enterprises, a warehousing and logistics company; Tutoring Club Franchise Philippines; and Octagon Realty and Development Corporation, where she is also the Corporate Secretary and account management lead.

She has served as a financial analyst for the Bahay Co. Real Estate Agents in Burlingame, California, USA from 2005 until 2007. She started her investment, banking and finance career at the Asia United Bank (AUB) on the areas of branch operations, marketing and investment portfolio management. Ms. Ynares holds a degree in Bachelor of Science in Business Administration and Computer Applications from De La Salle University (1999) and Associate for Arts for Professional Designation Fashion & Merchandising in San Francisco, California (2002).

SENIOR EXECUTIVE TEAM

MICHELANGELO R. AGUILAR
President and Chief Executive Officer

EVP FELIPE MARTIN F. TIMBOL
Treasury Management Group Head

EVP MANUEL A. CASTAÑEDA III
Corporate Banking I Group Head

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

SVP EDWIN T. AMAHAN
Branch Banking Group Head

SVP JAY S. VELASCO
Operations Group Head

SVP EDWARD DENNIS
J. ZSHORNACK
Executive Support Group Head

SVP GAMALIELH ARIEL
O. BENAVIDES
Trust Services Group Head

SVP MARY ASSUMPTA GAIL
C. BAUTISTA
Transaction Banking Group Head

SVP ANTONIO S. LAQUINDANUM
Chief Financial Officer
Finance & Controllership Group Head

SVP ANNA MARIE A. CRUZ
Corporate Communications &
Consumer Protection Division Head

SVP REGINALD C. NERY
Chief Audit Executive

FVP JOSE MARI M. ZERNA
Consumer Group Head

FVP JUAN ANGEL L. TINIO
Chief Information Officer

FVP LOUELLA P. IRA
Legal Services Division Head

FVP MARIE KRISTIN G. MAYO
Human Resource Management & Development Division Head

VP CORAZON T. LLAGAS
Chief Compliance Officer

VP MARIA ANA P. DELA PAZ
Credit Group Head

VP JEREMY H. REYES
Chief Risk Officer

FVP ALFREDO J. BAUTISTA
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 Cecilia A. Rentoy Amalia Q. Belarmino
Advisers	Edward Dennis J. Zshornack Reginald C. Nery
Secretariat	Lilibeth L. Sansait

ASSET LIABILITY MANAGEMENT COMMITTEE

Chairperson	Michelangelo R. Aguilar
Members	Felipe Martin F. Timbol Antonio S. Laquindanum Edwin T. Amahan Rafael C. Bueno Jr. Manuel A. Castañeda III Mary Assumpta Gail C. Bautista Jose Mari M. Zerna
Advisers	Jeremy H. Reyes Gamalielh Ariel O. Benavides
Secretariat	Monette G. De Leon

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 Antonio S. Laquindanum
Secretariat	Grace S. Cruz

BUSINESS CONTINUITY MANAGEMENT COMMITTEE (CRISIS MANAGEMENT TEAM)

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

BUSINESS CONTINUITY MANAGEMENT COMMITTEE (BCP TEAM)

Chairperson	Edwin T. Amahan
Vice Chairperson	Edward Dennis J. Zshornack
Members	Cecilia A. Rentoy Jaqueline A. Domingo Leah S. Castañeda Cenen R. Grajo Paul John T. Reyes Erasmus R. Bagunas 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

BIDS AND AWARDS COMMITTEE

Chairperson	Antonio S. Laquindanum
Members	Erasmus R. Bagunas Maria Ana P. Dela Paz Edwin T. Amahan Jay S. Velasco
Secretariat	Maritess C. Claveria

COMMITTEE ON DISCIPLINARY ACTION

Chairman	Marie Kristin G. Mayo
Members	Louella P. Ira Antonio S. Laquindanum Jay S. Velasco Edward Dennis J. Zshornack Edwin T. Amahan Jose Mari M. Zerna
Adviser	Reginald C. Nery
Secretariat	Jocelyn Isabel S. Legaspi Anna-Lyn R. Tarrayo

CREDIT AND COLLECTION COMMITTEE

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

INFORMATION TECHNOLOGY STEERING COMMITTEE

Chairperson	Michelangelo R. Aguilar
Vice Chairperson	Edward Dennis J. Zshornack
Members	Roberto C. Benares Edwin T. Amahan Felipe Martin F. Timbol Jose Mari M. Zerna Antonio S. Laquindanum Mary Assumpta Gail C. Bautista Gamalielh Ariel O. Benavides Maria Ana P. dela Paz Jay S. Velasco Joel L. Tinio Anna Marie A. Cruz Alfredo J. Bautista Jeremy H. Reyes Corazon T. Llagas
Adviser	Reginald C. Nery
Secretariat	David S. Chua Erma D. Pagkatipunan

ICAAP (INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS) COMMITTEE

Chairperson	Antonio S. Laquindanum
Vice Chairperson	Jeremy H. Reyes
Members	Edward Dennis J. Zshornack 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 Cecilia A. Rentoy Jeremy H. Reyes Joel L. Tinio Erasmus R. Bagunas 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 Cecilia A. Rentoy 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 APPETITE AND STRATEGY

The capital of the Bank, once invested, is already exposed to risks. The risk appetite of the Bank is the type and threshold of risk that the Bank is willing to seek, accept, or tolerate in the pursuit of its business objectives. This is based on the Bank's capacity to absorb risks given its capital, liquidity, borrowing capabilities, or statutory restrictions. The Risk Appetite Statements of the Bank are either quantitative or qualitative. Risk Appetite Statements are developed by the Bank to provide guidance on the various types of risk exposures of the Bank such as credit, market, liquidity, and operational risk.

The Bank's strategy to manage risk may be to reduce, avoid, accept, or transfer the risk. Management is under obligation to exercise reasonable care, skill and caution when engaging in business to ensure the appetite is not exceeded, to maximize the value of capital, and to preserve it when an adverse event occurs. Each and every employee is responsible to implement and adhere to the Bank's risk appetite while making business decisions daily.

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:

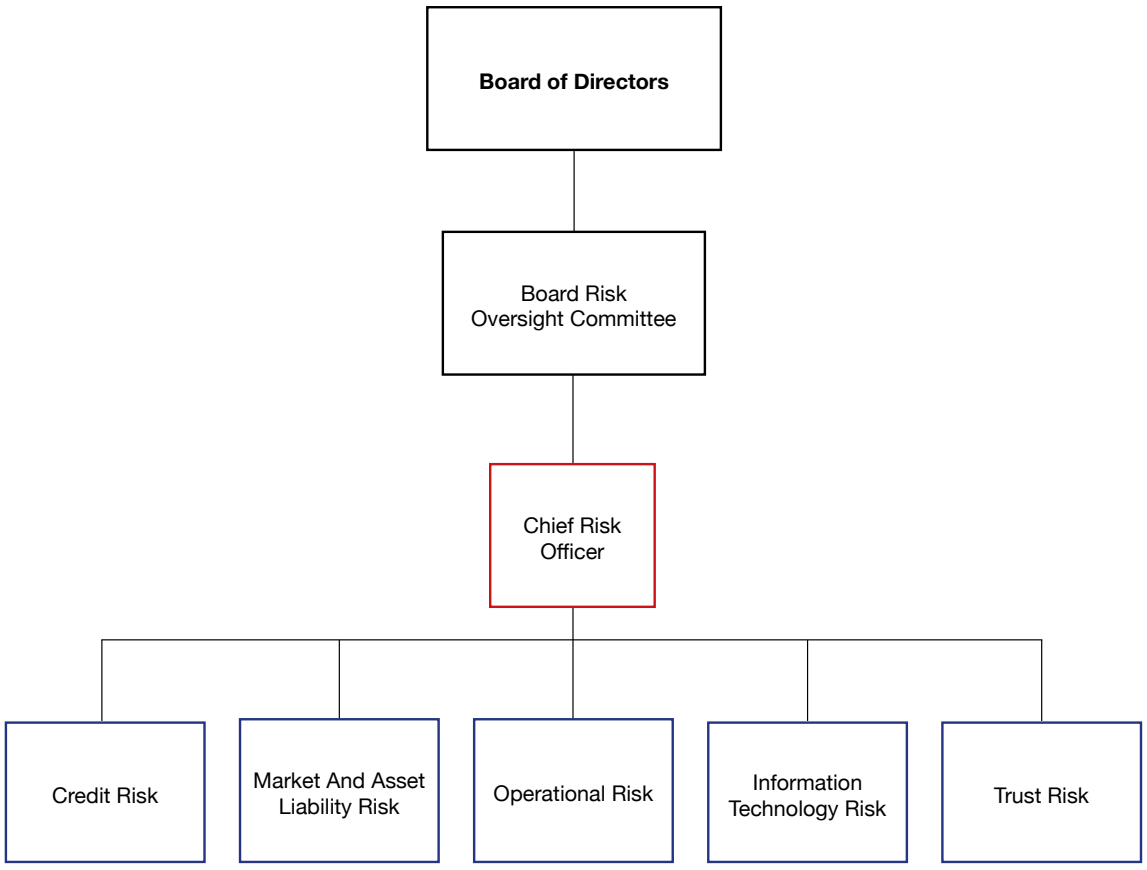
- Identifying and evaluating risk exposures
- Developing risk management strategies
- Implementing and periodically reviewing the risk management framework
- Promoting a culture that is conscious of the importance of risk management and capital adequacy

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:

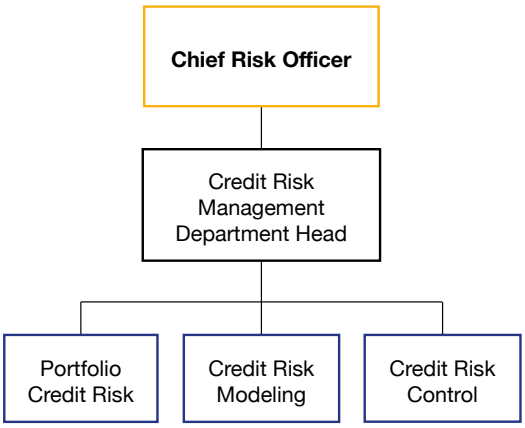
- Formulating and recommending policies to manage market, liquidity, credit, operational, information technology, and trust risks arising from the business of the Bank
- Implementing the risk management framework approved by the Board of Directors
- Actively promoting a culture of risk awareness and 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

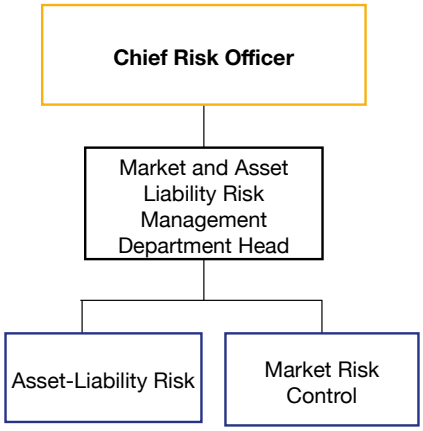
The Credit Risk Management Department (CRM) has three sections, with each focusing on a major segment of the credit risk management process. The CRM is responsible for developing and recommending policies that will aid in the management of credit risk present in the Bank's asset portfolios. The CRM is 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.



The CRM monitors credit exposures on a counterparty and portfolio level to ensure asset quality and concentration risks are within the Bank's risk appetite. Credit risk thresholds consist of regulatory commitments, internal limits, as well as industry benchmarks. Asset quality is measured through the Bank's Internal Credit Risk Rating System (ICRRS) for corporate accounts and expert scoring models, based on Fair Isaac Corporation (FICO), for consumer loans, including credit cards. These rating systems are monitored and validated on a regular basis. Concentration risks and large exposures are monitored and reported to the BROC and to Management on a regular basis. Concentrations are identified on a counterparty, industry, product, and country level. Regulatory and internally developed stress tests are also performed to evaluate the Bank's ability to absorb credit losses.

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, interest rate risk in the banking book 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 and the Board Risk Oversight Committee with risk assessments and stress testing of Treasury-managed assets as well as the overall liquidity and interest rate risk profile of the Bank's balance sheet.



The Bank employs an internally developed Value-at-Risk (VAR) model, along with other sensitivity metrics, to measure and monitor the probable deterioration in the market value of its trading portfolio. The MRM Department simulates the trading book's VAR on a daily basis and the results are compared against Board-approved limits. In addition to the risk appetite on VAR, the trading portfolio is also subject to limits on aggregate exposures, sensitivity metrics, and daily and monthly losses. These controls provide insight on possible strategies to hedge or mitigate the market risk arising from the trading book.

The MRM Department also regularly monitors the mismatches in its repricing of the Bank's assets and liabilities through the interest rate gap reports to the Anti-Money Laundering Committe (ALCO) and the BROC. To ensure that the Bank's net interest income is protected, the Bank has set a 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 Bank also has an internally developed Earnings-at-Risk (EAR) metric for monitoring interest rate risk in the banking book. EAR measures the probable shortfall in the projected NII over the next 12 months should the levels of interest rates change unfavorably for the Bank's repricing gap profile. This is simulated on a monthly basis and also subject to a limit approved by the Board.

To measure and monitor liquidity risk, the MRM Department prepares a Maximum Cumulative Outflow (MCO) report which estimates projected funding requirements that the Bank will need at specific time horizons. To ensure sufficient liquidity, the Bank has a set of internal limits on its MCO gaps and any breach is reported to ALCO and the Board. Concentration on a single funding source is also regularly monitored to control the Bank's reliance on a specific product or counterparty. 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.

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. Operational losses result from inadequate or failed internal processes, people, and systems or from external events. The ORMD monitors actual and probable operational losses in relation to the Bank's risk appetite. The ORMD facilitates the completion of Risk and Control Self Assessments (RCSA) for all the units of the Bank. The RCSA serves as a tool for acquiring information about operational and information technology risks, and determines the adequacy and effectiveness of control mechanisms employed to ensure that operational risks are within the acceptable levels of the Bank. Key risk indicators are also developed and maintained as part of the RCSA for continuous monitoring purposes. Operational loss incidents are also monitored by the ORMD for proper evaluation of the incident, with the intention of preventing recurrence and further financial losses. RCSAs and incidents are escalated to the appropriate level of management and reported to the Board Risk Oversight Committee.

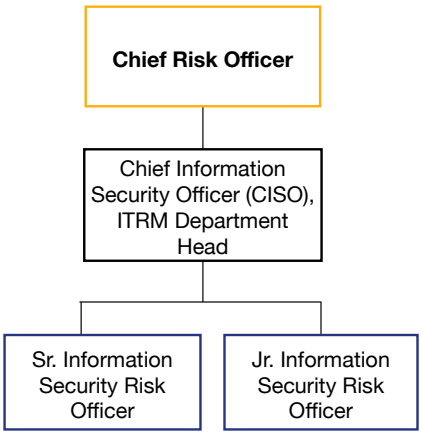
The ORMD also assists the operating units in improving the operational and system risk management capabilities through policy formulation. New or revised products and services undergo a risk assessment to ensure that adequate procedures and controls are embedded prior to implementation.

INFORMATION TECHNOLOGY RISK MANAGEMENT

The Information Technology Risk Management Department (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.

Information Technology risk falls under the broad category of operational risk. As such, objectives, strategies, and processes are similar to ORMD, with a specific focus on risk and control evaluations and incident management related to hardware, software, IT operations, and information security. Key risk indicators include system failures, data corruption, system security, system downtime, disaster recovery, among others. Vulnerability Assessment and Penetration testing is also managed by the ITRM.



TRUST RISK MANAGEMENT

Trust Risk Management (TRM) ensures the management of risks in the business operations of the Trust Services Group and reports to the Trust and Investment Committee (TIC) and the Board Risk Oversight Committee (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 comply with the requirements of the Anti-Money Laundering (AML) Law, rules, and regulations as embodied in its Money Laundering and Terrorist Financing Prevention Program (MTPP) which 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. This supports the Bank's mission of maintaining high ethical standards in the conduct of its business and ensures that the Bank does not become a conduit for dirty money or a victim of money laundering crime.

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 Bank seeks to instill a culture of compliance with Compliance Division as the main driver of the Bank's initiatives to foster AML awareness and discipline. Compliance Division, in partnership with HRMDD, constantly enhances the Bank's training program to equip bank personnel with appropriate knowledge to achieve the Bank's goal of promoting effective implementation of the Anti-Money Laundering and Combating Financing of Terrorism (CFT) policies and procedures in the entire organization. The Bank provides trainings that are designed based on the degree of experiences to transactions that pose risks 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 highlights their responsibilities under the MLPP.

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 2018 totalled PHP100.2 billion.

RISK-WEIGHTED ASSETS	2018	2017
Credit Risk	92,891	80,164
On Balance Sheet	87,876	76,989
Commitments	5,002	3,162
Counterparty Risk-Weighted Assets in the Trading Book	13	13
Contingencies	-	-
Deduction: GLLP (in excess to 1% of Credit Risk-Weighted Assets)	-	-
Market Risk	411	266
Interest Rate Risk	249	49
Foreign Exchange Risk	162	217
Operational Risk	6,921	6,913
Total Risk-Weighted Assets	**100,223**	**87,343**

**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 2018, the credit risk exposures of the Bank include PHP150.04 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	2018	2017
Cash & Other Cash Items	**1,748**	**1,385**
Due From Banks (including ILR and Due from BSP)	**31,556**	**31,078**
Securities	**31,410**	**29,791**
Sovereign	27,400	25,887
Bank	-	-
Corporate	4,010	3,904
Loan Portfolio	**72,079**	**62,653**
Loans to Corporates	60,309	53,152
Loans to Individuals - Qualified Residential REM	6,780	5,119
Loans to Individuals - Other Loans	4,897	4,166
Defaulted Exposures - Qualified Residential REM	59	92
Defaulted Exposures - Other Loans	34	124
Loan & Receivables Arising RPA	**5,447**	**4,131**
Sales Contracts Receivable	**537**	**1,160**
Real & Other Properties Acquired	**2,599**	**2,542**
Other Assets	**4,669**	**4,866**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED FOR CREDIT RISK	**150,045**	**137,606**

**Amounts in millions*

As of December 31, 2018 and 2017, other assets have been subjected to the following deductions:

	2018	2017
Total Assets	**151,420**	**138,500**
General Loan Loss Provisions	**783**	**628**
Deductions		
Total Exposures Excluding other Assets	145,376	132,740
Financial Assets Held for Trading	949	101
Deferred Tax Assets	247	386
Other Intangible Assets	196	238
Other Equity Investments in Non-Financial Allied Undertakings and Non-Allied Undertakings	41	48
Significant Minority Instruments	-	-
Reciprocal Equity Investments	20	21
Accumulated Market gains /(losses) on AFS	-	-
Total Carrying Amount of Securitization Exposures	705	727
TOTAL OTHER ASSETS	**4,669**	**4,867**

**Amounts in millions*

The Bank considers credit risk mitigation as a means to lower its exposure to credit risk. At the end of 2018, PHP828 million in credit risk exposures carried mitigation in the form of qualified collateral from third parties.

ON-BALANCE SHEET ITEMS COVERED BY CREDIT RISK MITIGATION	2018	2017
Exposures Covered by Credit Risk Mitigation	828	1,393
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 2018 was PHP5.002 billion.

COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	2018	2017
Direct Client Substitutes	1,961	1,250
Transaction Related Contingencies	3,039	1,838
Trade Related Contingencies	2	75
Other Commitments	-	-
TOTAL COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	**5,002**	**3,163**

**Amounts in millions*

Net credit risk-weighted exposure at the end of 2018 was PHP92.89 billion. This credit exposure represents 92.68% of total risk-weighted assets.

The on-balance sheet credit risk-weighted assets without credit mitigation were PHP87.87 billion. On-balance sheet exposure makes up 95% 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	2018	2017
Cash & Other Cash Items	**-**	**-**
Due From Banks (including ILR)	**4,347**	**2,656**
Securities	**3,985**	**3,745**
Sovereign	3,153	2,964
Bank	-	-
Corporate	832	781
Loan Portfolio	**70,307**	**60,690**
Loans to Corporates	59,798	52,108
Loans to Individuals - Qualified Residential REM	5,820	4,487
Loans to Individuals - Other Loans	4,579	3,816
Defaulted Exposures - Qualified Residential REM	59	92
Defaulted Exposures - Other Loans	51	187
Loan & Receivables Arising RPA	**-**	**-**
Sales Contracts Receivable	**670**	**1,220**
Real & Other Properties Acquired	**3,898**	**3,813**
Other Assets	**4,669**	**4,866**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED FOR CREDIT RISK	**87,876**	**76,990**

**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 2018 was PHP411 million.

MARKET RISK-WEIGHTED ASSETS	2018	2017
Interest Rate Specific to the Issuer of the Debt Instruments	1	13
Interest Rate Risk Attributable to Market Conditions	248	36
Foreign Exchange Risk	162	217
TOTAL MARKET RISK-WEIGHTED ASSETS	**411**	**266**

**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 2018 was PHP6.921 billion.

OPERATIONAL RISK-WEIGHTED ASSETS	2018	2017
Average Income of the Previous Three Years	3,691	3,687
Capital Charge (15 pct of Average Income)	554	553
Calibration (Capital Charge times 1.25)	692	691
TOTAL OPERATIONAL RISK-WEIGHTED ASSETS (Calibrated Capital Charge times 10)	**6,921**	**6,913**

**Amounts in millions*

SECURITIZATION STRUCTURES

The Bank's MRT Tranche 3 Note holding is booked as part of Financial Assets at Fair Value Through Profit or Loss (FVPL) upon initial application of PFRS 9 and is measured at fair value. In 2017, MRT Tranche 3 Note was included in the Unquoted Debt Securities classified as Loans and was measured at amortized cost. The Note regularly redeems part of its principal every month and is expected to be fully paid on February 7, 2025. The Note's fair value as of December 31, 2018 was USD16.9 million (PHP886.97 million) with a mark-to-market gain of USD0.60 million (PHP31.82 million).

SECURITIZATION EXPOSURE	2018	2017
MRT Tranche 3	887	727
TOTAL	**887**	**727**

**Amounts in millions*

OTHER RISK DISCLOSURES

COMPLIANCE RISK

A strong compliance culture is the Bank's key to better manage compliance risk. This culture thrives upon a common understanding by all persons within the organization that it is a basic responsibility to know and have a working knowledge of the laws, rules, and regulations attendant to his functions. To reinforce this responsibility, units in charge of ensuring compliance with laws and regulations (legal, regulatory, tax) regularly disseminate any new issuances for the understanding of concerned units/personnel.

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 Senior Management, Corporate Governance Committee, and the Board for immediate/appropriate resolution.

In order to validate that compliance culture is observed on all aspects of the Bank's business, activities and processes, regular monitoring and assessment of adherence to laws, rules, and regulations are performed. 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 branches, head office units and selected products/services; and finally supplemented by validation performed by Internal Audit on all units and branches included in the Annual Audit Plan.

Based on the Bank's Compliance Program where self-assessment is one of the pillars, Deputy Compliance Officers (DCO) are appointed within each of the operating and business units of the Bank to perform periodic self-testing. Using the Compliance Self-Assessment Checklist (CSAC) prepared by Compliance Division, Compliance Self-Assessment is done by the DCOs to check the level of compliance of their respective units with identified laws, rules and regulations. 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 2018.

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, 2018 and 2017:

Amounts in millions	**2018**	**2017**
Gross Qualifying Capital	16,306	16,375
Less: Regulatory deductions	1,209	1,420
Total Qualifying Capital	**15,097**	**14,955**
Credit risk-weighted assets	92,891	80,164
Market risk-weighted assets	411	266
Operational risk-weighted assets	6,921	6,913
Total Risk-Weighted Assets	**100,223**	**87,343**
Capital Adequacy Ratio or "CAR" Regulatory minimum is 10%	15%	17%
Tier 1 Capital Ratio Regulatory minimum is 7.5%	14%	16%
Common Equity Tier 1 Ratio	**14%**	**16%**

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, 2018 and 2017, 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, 2018		DECEMBER 31, 2017	
Amounts in millions	**Risk-Weighted Assets**	**Capital Requirements**	**Risk-Weighted Assets**	**Capital Requirements**
Credit Risk	92,891	9,289	80,164	8,016
Market Risk	411	41	266	27
Operational Risk	6,921	692	6,913	691
Total	**100,223**	**10,022**	**87,343**	**8,734**

The following tables exhibit the elements of the Bank's Total Qualifying Capital as of December 31, 2018 and 2017:

Amounts in millions	**DECEMBER 31, 2018**	**DECEMBER 31, 2017**
Paid-up Common Stock	11,224	11,224
Additional Paid-in Capital	5,594	5,594
Retained Earnings/(Deficit)	(1,174)	(259)
Other Comprehensive Income	(338)	(827)
Gross Common Equity Tier 1 (CET1) Capital	**15,306**	**15,732**
Appraisal Increment Reserve – Bank Premises	10	15
General Loan Loss Provision	991	628
Gross Tier 2 Capital	**1,001**	**643**
Less: Regulatory Deductible Adjustments To Qualifying Capital		
Deferred Tax Assets	247	386
Other Intangible Assets	196	238
Other Equity Investments In Non-Financial Allied Undertakings And Non-Allied Undertakings	41	48
Reciprocal Equity Investments	21	21
Securitization Tranches And Structured Products Which Are Rated Below Investment Grade Or Are Unrated	705	727
Total Regulatory Deductible Adjustments To Qualifying Capital	**1,210**	**1,420**
Adjusted CET1 Capital	**14,096**	**14,312**
Adjusted Tier 2 Capital, mainly adding back the General Loan Loss Provisions	**1,001**	**643**
Total Qualifying Capital	**15,097**	**14,955**

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, 2018			DECEMBER 31, 2017		
	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	0	5,594	5,594	-	5,594
Surplus reserves	168	287	455	159	-	159
Retained earnings (Deficit)	(1,342)	2,027	685	(418)	1,921	1,503
Net unrealized losses on financial assets at FVOCI	-	(130)	(130)	-	-	-
Net unrealized losses on AFS securities	(155)	155	-	(648)	14	(634)
Remeasurement losses on retirement liability	(177)	82	(95)	(177)	-	(177)
Share in other comprehensive loss of associate	(6)	0	(6)	(1)	-	(1)
Cumulative translation adjustment	0	13	13	(1)	(8)	(9)
Deductions	(1,210)	1,210	-	(1,420)	1,420	-
	14,096	**3,643**	**17,740**	**14,312**	**3,347**	**17,659**
Tier 2 capital						
Revaluation increment on PPE and investment properties	10	336	346	15	127	142
General loan loss provision	991	(991)	-	628	(628)	-
	1,001	**(655)**	**346**	**643**	**(501)**	**142**
Total qualifying capital/Total equity	**15,097**	**2,989**	**18,086**	**14,955**	**2,846**	**17,801**

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.

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 2018 ICAAP Report highlighted the sufficiency of the Bank's compliance with regulatory and internal capital requirements considering the strategic plans from 2019 through 2021, 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 writedown 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 any proposed capital-raising exercise for deliberation and approval by the Board and accordingly, to pursue the necessary regulatory approvals.

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.

IAD has full, free, and unrestricted access to any and all of the Bank's records, systems, physical properties and personnel pertinent to carrying out any engagement. IAD also has free and unrestricted access to the Board of Directors through the Audit Committee.

IAD, through the Chief Audit Executive (CAE), reports functionally to the Audit Committee and administratively to the President. The CAE regularly reports to senior management and the Audit Committee IAD's purpose, authority, responsibility, plans and activities, as well as performance relative to its plans. Reporting also includes significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Audit Committee.

Based on the results of audit and other assurance activities performed in 2018, the CAE declared that the Bank's system of internal controls, risk management, and governance is reasonably adequate to address strategic, financial, regulatory, compliance (including AMLA), 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.

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 randomly generating and sending confirmation letters regarding account balances of selected clients.

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 activities. The program includes, but is not limited to, an evaluation of the internal audit activity's conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (the "Standards") 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, 2018 and 2017, 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

MICHELANGELO R. AGUILAR
President and Chief Executive Officer

ANTONIO S. LAQUINDANUM
Senior Vice President and Chief Financial Officer

Subscribed and sworn to before me this 26th day of March 2019, 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
Michelangelo R. Aguilar	Passport No. EC0933814	April 25, 2014	DFA NCR South
Antonio S. Laquindanum	Passport No. P1454800A	January 05, 2017	DFA Manila

Doc. No. 220
Page No. 45
Book No. 1
Series of 2019

EVA Z. BANZON
NOTARY PUBLIC FOR MANDALUYONG CITY

AUDITED FINANCIAL STATEMENTS

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, 2018 and 2017, 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, 2018 and 2017, 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.

PRC-BOA Registration No. 0003, valid until March 15, 2020
SEC Accreditation No. 0004-FR-5, Group A, valid until November 15, 2020
IC Accreditation No. F-2017/010-R, valid until August 26, 2020
BSP - Selected External Auditors, Category A, valid for 3-year audit period (2017 to 2019)

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.

- 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-AR-1, Group A, valid until May 14, 2021
Tax Identification No. 228-271-641
BIR Accreditation No. 08-001987-32-2017
Issued September 5, 2017; valid until September 4, 2020
PTR No. MKT 7333628
Issued January 3, 2019 at Makati City

March 26, 2019
Makati City, Metro Manila

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2018**	2017
ASSETS			
Cash and Other Cash Items		**P1,748,070,945**	P1,384,981,849
Due from Bangko Sentral ng Pilipinas - net	*3, 17, 18*	**21,424,140,231**	25,704,211,852
Due from Other Banks - net	*3, 17*	**3,838,048,357**	3,185,995,822
Interbank Loans Receivable and Securities Purchased Under Resale Agreements - net	*3, 7, 17*	**11,983,626,735**	6,316,149,870
Financial Assets at Fair Value through Profit or Loss	*3, 8*	**1,836,409,128**	101,046,229
Financial Assets at Fair Value through Other Comprehensive Income	*3, 9, 17, 33, 34*	**7,974,183,196**	-
Available-for-Sale Securities - net	*3, 9, 17, 33, 34*	**-**	17,106,651,172
Investment Securities at Amortized Cost - net	*3, 10, 17, 34*	**23,211,087,719**	-
Held-to-Maturity Investments	*3, 10, 34*	**-**	12,529,887,205
Loans and Receivables - net	*3, 11, 17, 34*	**72,271,060,842**	65,411,128,471
Non-current Assets Held for Sale	*12*	**48,121,557**	48,121,557
Investment in Associate - net	*13, 17, 34*	**39,982,110**	46,149,665
Property and Equipment - net	*14, 17*		
At cost		**467,659,688**	478,285,349
At appraised values		**1,041,434,468**	811,715,955
Investment Properties	*15*	**6,414,383,277**	5,801,661,936
Deferred Tax Assets - net	*31*	**-**	108,225,028
Other Assets - net	*16, 17*	**1,783,429,147**	1,421,631,448
		P154,081,637,400	P140,455,843,408
LIABILITIES AND EQUITY			
Deposit Liabilities	*18, 34*		
Demand		**P28,834,195,500**	P26,863,176,630
Savings		**77,608,568,345**	74,895,962,109
Time		**24,735,459,519**	17,008,912,478
		131,178,223,364	118,768,051,217
Bills Payable	*19*	**557,471,615**	267,208
Manager's Checks and Acceptances Payable		**615,495,938**	560,296,206
Accrued Interest, Taxes and Other Expenses	*20, 34*	**956,487,225**	906,866,282
Deferred Tax Liabilities - net	*31*	**90,918,316**	-
Other Liabilities	*21, 34*	**2,597,311,310**	2,418,959,935
Total Liabilities		**135,995,907,768**	122,654,440,848

Forward

		December 31	
	Note	**2018**	2017
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*	**454,994,785**	159,442,049
Retained earnings	*3, 23*	**684,414,305**	1,503,397,896
Revaluation increment on property and equipment and investment properties - net of tax	*14, 15*	**346,223,236**	141,587,083
Net unrealized losses on financial assets at fair value through other comprehensive income	*3, 9*	**(129,757,730)**	-
Net unrealized losses on available-for-sale securities	*3, 9*	**-**	(633,965,463)
Remeasurement losses on retirement liability	*28*	**(95,312,091)**	(176,743,526)
Share in other comprehensive loss of associate	*13*	**(5,662,774)**	(1,339,715)
Cumulative translation adjustment		**12,639,055**	(9,166,610)
Total Equity		**18,085,729,632**	17,801,402,560
		P154,081,637,400	P140,455,843,408

See Notes to the Financial Statements.

STATEMENTS OF INCOME

		Years Ended December 31	
	Note	**2018**	2017
INTEREST INCOME			
Interest income calculated using the effective interest method:			
Loans and receivables	*11, 34*	**P3,668,711,226**	P2,846,991,127
Investment securities at fair value through other comprehensive income and at amortized cost	*25, 34*	**1,123,886,031**	935,950,315
Interbank loans receivable and securities purchased under resale agreements	*7*	**266,130,424**	230,657,897
Due from Bangko Sentral ng Pilipinas and other banks	*18*	**96,860,198**	241,070,180
Other interest income:			
Financial assets at fair value through profit or loss	*25*	**62,668,042**	14,909,503
		5,218,255,921	4,269,579,022
INTEREST EXPENSE			
Deposit liabilities	*18, 34*	**1,508,936,521**	867,108,835
Bills payable and others	*19*	**10,024,024**	15,011,452
		1,518,960,545	882,120,287
NET INTEREST INCOME		**3,699,295,376**	3,387,458,735
OTHER INCOME			
Fair value gain from investment properties	*15*	**697,486,754**	409,097,160
Service charges, fees and commissions	*26, 34*	**391,812,899**	476,725,037
Reversal of credit and impairment losses	*17*	**146,375,651**	14,974,524
Trading and investment securities (losses) gains - net	*27*	**(109,414,653)**	56,259,849
Gains on foreclosure and sale of property and equipment and foreclosed assets - net	*12, 14, 15, 16, 34*	**89,959,416**	317,645,099
Foreign exchange gains - net		**58,755,372**	84,655,566
Miscellaneous	*15, 29, 34*	**95,334,833**	86,292,088
		1,370,310,272	1,445,649,323
OTHER EXPENSES			
Compensation and fringe benefits	*28, 34*	**1,557,771,075**	1,389,262,388
Taxes and licenses	*15, 31*	**702,953,640**	492,223,314
Rent and utilities	*29*	**683,570,750**	629,326,820
Insurance		**229,304,192**	220,569,326
Depreciation and amortization	*14, 16*	**181,353,859**	178,840,936
Entertainment, amusement and recreation		**142,179,776**	145,056,262
Management and professional fees	*34*	**89,015,345**	111,900,913
Amortization of software costs	*16*	**57,381,716**	107,666,376
Miscellaneous	*30*	**562,357,339**	552,854,592
		4,205,887,692	3,827,700,927
INCOME BEFORE SHARE IN NET LOSS OF ASSOCIATE AND INCOME TAX		**863,717,956**	1,005,407,131
SHARE IN NET LOSS OF ASSOCIATE	*13, 34*	**1,844,496**	1,799,558
INCOME BEFORE INCOME TAX		**861,873,460**	1,003,607,573
INCOME TAX EXPENSE	*31*	**437,158,979**	377,690,413
NET INCOME		**P424,714,481**	P625,917,160

See Notes to the Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	**2018**	2017
NET INCOME		**P424,714,481**	P625,917,160
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*	**209,366,068**	(39,318,935)
Net change in remeasurement losses on retirement liability	*28*	**81,431,435**	(12,514,756)
Net change in net unrealized gain on equity securities at fair value through other comprehensive income	*9*	**28,445,940**	-
		319,243,443	(51,833,691)
Items that may be reclassified to profit or loss			
Net change in net unrealized loss on debt securities at fair value through other comprehensive income	*9*	**(161,646,949)**	-
Net movement in cumulative translation adjustment		**21,805,665**	(10,467,581)
Share in other comprehensive loss of associate	*13*	**(4,323,059)**	(316,108)
Net change in net unrealized loss on available-for-sale securities	*9*	**-**	(67,342,720)
		(144,164,343)	(78,126,409)
		175,079,100	(129,960,100)
TOTAL COMPREHENSIVE INCOME		**P599,793,581**	P495,957,060

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 (Notes 3 and 23)	Revaluation Increment on Property and Equipment and Investment Properties - net of tax (Notes 14 and 15)	Net Unrealized Losses on Financial Assets at FVOCI/ AFS Securities (Notes 3 and 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, 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**
Effect of initial application of Philippine Financial Reporting Standard 9	*3*	-	-	-	**(958,175,251)**	-	**642,511,880**	-	-	-	**(315,663,371)**
Balance as at January 1, 2018		**11,224,111,200**	**5,594,079,646**	**159,442,049**	**545,222,645**	**141,587,083**	**8,546,417**	**(176,743,526)**	**(1,339,715)**	**(9,166,610)**	**17,485,739,189**
Net income for the year		-	-	-	**424,714,481**	-	-	-	-	-	**424,714,481**
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		-	-	-	-	**209,366,068**	-	-	-	-	**209,366,068**
Net change in remeasurement losses on retirement liability - net of tax		-	-	-	-	-	-	**81,431,435**	-	-	**81,431,435**
Net change in fair value of equity securities at fair value through other comprehensiv income (FVOCI)		-	-	-	-	-	**28,445,940**	-	-	-	**28,445,940**
Items that may be reclassified to profit or loss:											
Net change in fair value of debt securities at FVOCI		-	-	-	-	-	**(161,811,683)**	-	-	-	**(161,811,683)**
Net movement in cumulative translation adjustment		-	-	-	-	-	-	-	-	**21,805,665**	**21,805,665**
Share in other comprehensive loss of associate		-	-	-	-	-	-	-	**(4,323,059)**	-	**(4,323,059)**
Net change in fair value of debt securities at FVOCI taken to profit or loss		-	-	-	-	-	**164,734**	-	-	-	**164,734**
Total comprehensive income for the year		-	-	-	**424,714,481**	**209,366,068**	**(133,201,009)**	**81,431,435**	**(4,323,059)**	**21,805,665**	**599,793,581**
Transactions within equity:											
Transfer to surplus reserves	*24*	-	-	**295,552,736**	**(295,552,736)**	-	-	-	-	-	-
Transfer of gain on equity securities at FVOCI realized through disposal	*9*	-	-	-	**5,300,000**	-	**(5,300,000)**	-	-	-	-
ECL on debt securities at FVOCI		-	-	-	-	-	**196,862**	-	-	-	**196,862**
Transfer of revaluation increment on property and equipment realized through depreciation		-	-	-	**4,729,915**	**(4,729,915)**	-	-	-	-	-
		-	-	**295,552,736**	**(285,522,821)**	**(4,729,915)**	**(5,103,138)**	-	-	-	**196,862**
Balance as at December 31, 2018		**P11,224,111,200**	**P5,594,079,646**	**P454,994,785**	**P684,414,305**	**P346,223,236**	**(P129,757,730)**	**(P95,312,091)**	**(P5,662,774)**	**P12,639,055**	**P18,085,729,632**

Forward

	Note	Capital Stock (Note 23)	Paid-in Surplus (Note 23)	Surplus Reserves (Note 24)	Retained Earnings (Notes 3 and 23)	Revaluation Increment on Property and Equipment and Investment Properties - net of tax (Notes 14 and 15)	Net Unrealized Losses on Financial Assets at FVOCI/ AFS Securities (Notes 3 and 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 change in fair value of available-for-sale (AFS) securities taken to profit or loss		-	-	-	-	-	(37,554,250)	-	-	-	(37,554,250)
Net change 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)	-	-	-	-	-
Transfer to surplus reserves	*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

See Notes to the Financial Statements.

STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P861,873,460**	P1,003,607,573
Adjustments for:			
Fair value gain from investment properties	*15*	**(697,486,754)**	(409,097,160)
Depreciation and amortization	*14, 16*	**181,353,859**	178,840,936
Reversal of credit and impairment losses	*17*	**(146,617,433)**	(14,974,524)
Gain on foreclosure and sale of property and equipment and foreclosed assets - net	*12, 14, 15, 16, 34*	**(89,959,416)**	(317,645,099)
Amortization of software costs	*16*	**57,381,716**	107,666,376
Unrealized loss on financial assets and liabilities at fair value through profit or loss	*27*	**19,715,698**	811,909
Share in net loss of associate	*13*	**1,844,496**	1,799,558
Loss on sale of financial assets at fair value through other comprehensive income	*27*	**164,734**	-
Gain on sale of available-for-sale securities	*9, 27*	**-**	(37,554,250)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at fair value through profit or loss		**(779,760,163)**	(8,346,910)
Loans and receivables		**(8,850,870,950)**	(14,168,823,884)
Other assets		**(164,372,519)**	(67,454,743)
Increase (decrease) in:			
Deposit liabilities		**12,410,172,147**	1,272,036,393
Manager's checks and acceptances payable		**55,199,732**	(155,763,705)
Accrued interest, taxes and other expenses		**55,739,221**	(30,801,533)
Other liabilities		**203,355,747**	178,665,163
Net cash generated from (absorbed by) operations		**3,117,733,575**	(12,467,033,900)
Income taxes paid		**(331,533,051)**	(299,471,805)
Net cash provided by (used in) operating activities		**2,786,200,524**	(12,766,505,705)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale or redemption of:			
Financial assets at fair value through other comprehensive income		**17,541,055,971**	-
Investment securities at amortized cost		**2,901,000,000**	-
Investment properties		**209,927,628**	464,945,531
Property and equipment		**51,904,711**	59,363,216
Available-for-sale securities		**-**	11,384,200,916
Non-current assets held for sale		**-**	6,860,800
Additions to:			
Financial assets at fair value through other comprehensive income		**(19,971,400,609)**	-
Investment securities at amortized cost		**(1,476,768,927)**	-
Property and equipment	*14*	**(179,307,960)**	(246,585,112)
Deferred software costs	*16*	**(24,575,595)**	(67,795,996)
Investment properties		**(9,746,082)**	(1,392,901)
Available-for-sale securities		**-**	(14,118,596,338)
Held-to-maturity investments		**-**	(2,896,564,194)
Net cash used in investing activities		**(957,910,863)**	(5,415,564,078)

Forward

		Years Ended December 31	
	Note	**2018**	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of bills payable	*19*	**P557,291,915**	P -
Settlement of bills payable		**(87,508)**	(217,177)
Net cash provided by (used in) financing activities		**557,204,407**	(217,177)
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS		**21,805,665**	(10,467,581)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2,407,299,733**	(18,192,754,541)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**1,384,981,849**	1,635,564,614
Due from Bangko Sentral ng Pilipinas	*3*	**25,700,741,783**	31,232,966,983
Due from other banks	*3*	**3,185,565,713**	3,839,466,066
Interbank loans receivable and securities purchased under resale agreements	*3*	**6,315,297,190**	18,076,096,271
		36,586,586,535	54,784,093,934
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		**1,748,070,945**	1,384,981,849
Due from Bangko Sentral ng Pilipinas		**21,424,140,231**	25,704,211,852
Due from other banks		**3,838,048,357**	3,185,995,822
Interbank loans receivable and securities purchased under resale agreements		**11,983,626,735**	6,316,149,870
		P38,993,886,268	P36,591,339,393
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS			
Interest received		**P4,952,164,436**	P4,120,671,923
Interest paid		**1,413,749,976**	841,783,482
Dividends received		**13,065,426**	13,871,853

See 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 39.89% and 39.94% ownership of the Bank's issued shares, respectively, as at December 31, 2018 and 2017, 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 139 and 134 branches nationwide as at December 31, 2018 and 2017, respectively.

On January 17, 2012 and April 24, 2012, respectively, the Board of Directors (BOD) and the Stockholders 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. Likewise, Article III, Section 1 of its Amended By-Laws amending the number of independent directors and defining the competition requirements for director's competing business or activities within the Philippines. The said Amended Articles of Incorporation of the Bank were approved by the SEC on January 16, 2013.

On April 11, 2014 and April 29, 2014, respectively, the BOD and the Stockholders approved the amendment of the Bank's By-Laws to include the use of teleconferencing and video conferencing in the conduct of BOD meetings. The BSP granted the Certificate of Authority on October 27, 2014 approving the same and the Amended By-Laws of the Bank were approved by the SEC on July 13, 2015.

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on March 26, 2019.

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, consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

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
Financial assets at fair value through other comprehensive income (FVOCI)	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 Standard and Interpretations

The Bank has adopted the following new standards, amendments to standard and interpretation starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new and amended standards and interpretation did not have any significant impact on the Bank's financial statements.

- PFRS 9*, Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* 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.

  Additionally, as a result of the adoption of PFRS 9, the Bank adopted consequential amendments to PAS 1, *Presentation of Financial Statements,* which require separate presentation in the statements of income and statements of comprehensive income of interest income calculated using the effective interest method as against other interest income. This includes interest income earned from financial assets at amortized cost and debt securities at FVOCI which were both presented separately from financial assets at FVPL. Previously, interest income earned from investment securities were presented together in the statements of income and statements of comprehensive income and disclosed together in the notes to the financial statements. The Bank has also adopted consequential amendments to PFRS 7, *Financial Instruments: Disclosures* that are applied to disclosures about 2018 transactions and balances, but have not been applied to the comparative information.

  The full impact of adopting the standard is set out below.

  a. Classification and Measurement
     PFRS 9 contains three (3) principal classification categories for financial assets: measured at amortized cost, FVOCI and FVPL. PFRS 9 classification is generally based on the business model within which a financial asset is managed and its contractual cash flows. Under PFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

The assessment of the Bank's business model was made as at the date of initial application, January 1, 2018, and then applied, retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The following are the changes in the classification of the Bank's financial assets as at January 1, 2018:

- Investment in MRT III bonds with carrying value of P727.1 million has been reclassified from unquoted debt securities under Loans and receivables to Financial assets at FVPL. The cash flows relating to this investment does not represent solely payments of principal and interest (SPPI).

- Equity securities previously classified as AFS securities are now classified and measured as Equity securities designated at FVOCI. The Bank elected to irrevocably classify its equity securities under this category based on facts and circumstances that existed at the date of initial application.

- Certain government securities (GS) with carrying value of P11.5 billion have been reclassified from AFS securities to Investment securities at amortized cost as the business model is to hold the financial assets to collect contractual cash flows until maturities of the securities.

As a result of the change in classification of financial assets, the Bank's Retained earnings increased by P196.2 million and the Net unrealized losses on financial assets at FVOCI decreased by P641.9 million as at January 1, 2018.

As at December 31, 2018, the fair value of Investment securities at amortized cost that were transferred out of the AFS securities amounted to P8.0 billion. The fair value loss that would have been recognized in the 2018 statement of comprehensive income if the GS had not been reclassified amounted to P802.6 million. GS with face value of P2.8 billion that were reclassified to Investment securities at amortized cost matured in 2018.

The Bank has not designated any financial assets and liabilities as at FVPL. There are no changes in the classification and measurement of the Bank's financial liabilities 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. Under PFRS 9, credit losses are recognized earlier than that under PAS 39.

Upon the adoption of PFRS 9, the Bank recognized additional impairment on the Bank's financial assets at amortized cost, debt securities at FVOCI, and loan commitments and financial guarantee contracts of P1.1 billion, P0.6 million and P61.8 million, respectively, which resulted in a decrease in Retained earnings of P1.2 billion as at January 1, 2018. Impairment losses do not reduce the carrying amount of financial assets at FVOCI in the statements of financial position, which remains at fair value. An amount equal to the impairment allowance of P0.6 million was included in the Net unrealized losses on financial assets at FVOCI.

c. Transition

The Bank adopted PFRS 9 on January 1, 2018 and, as allowed in the transition provisions of the standard, did not restate comparative information. Differences in the carrying amounts of financial assets resulting from the adoption of PFRS 9 are recognized in Retained earnings and other comprehensive income (OCI) as at January 1, 2018. Accordingly, the information presented in 2017 does not reflect the requirements of PFRS 9 and therefore is not comparable to the information presented in 2018 under PFRS 9.

The Bank used the exemption not to restate comparative periods but considering that the amendments made by PFRS 9 to PAS 1 introduced the requirement to present interest income calculated using the effective interest method as a separate line item in the statements of income, the Bank presented separately the interest income on investment securities at FVOCI and at amortized cost from interest income on financial assets at FVPL. These were previously presented together as interest income on debt securities.

The following table shows the impact of adopting PFRS 9 as at January 1, 2018 (amounts in thousands):

	PAS 39			Remeasurement		PFRS 9	
	Measurement Category	Amount	Re-classifications	ECL	Others*	Measurement Category	Amount
Assets							
Cash and other cash items	Loans and receivables	P1,384,982	P -	P -	P -	Amortized cost	P1,384,982
Due from BSP	Loans and receivables	25,704,212	-	(3,470)	-	Amortized cost	25,700,742
Due from other banks	Loans and receivables	3,185,996	-	(430)	-	Amortized cost	3,185,566
Interbank loans receivables and SPURA	Loans and receivables	6,316,150	-	(853)	-	Amortized cost	6,315,297
Financial assets at FVPL	FVPL	101,046	727,122	-	248,197	FVPL	1,076,365
Investment securities	AFS	17,106,651	(11,518,550)	-	-	FVOCI	5,588,101
	HTM	12,529,887	11,518,550	(2,909)	589,958	Amortized cost	24,635,486
Loans and receivables	Loans and receivables	65,411,128	(727,122)	(1,084,402)	-	Amortized cost	63,599,604
		P131,740,052	P -	(P1,092,064)	P838,155		P131,486,143
Liabilities							
Loan commitments and financial guarantee contracts		P -	P -	P61,754	P -		P61,754

**Changes in the carrying amounts arising from the change in classification of financial assets*

		Transition Adjustments		
	Balance as at December 31, 2017	ECL Impairment	Re-classifications	Balance as at January 1, 2018
Equity				
Retained earnings	P1,503,398	(P1,154,384)	P196,209	P545,223
Net unrealized losses on financial assets at FVOCI	(633,965)	566	641,946	8,547
Net	P869,433	(P1,153,818)	P838,155	P553,770

The following table reconciles the closing allowance for credit losses for financial assets under PAS 39 and provisions for commitments and financial guarantee contracts under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* as at December 31, 2017 to the opening ECL allowance determined in accordance with PFRS 9 as at January 1, 2018 (amounts in thousands).

	PAS 39	Remeasurement	PFRS 9
Due from BSP	P -	P3,470	P3,470
Due from other banks	-	430	430
Interbank loans receivable and SPURA	-	853	853
Financial assets at FVOCI	-	566	566
Investment securities at amortized cost	-	2,909	2,909
Loans and receivables	2,411,636	1,084,402	3,496,038
Loan commitments and financial guarantee contracts	-	61,754	61,754
	P2,411,636	P1,154,384	P3,566,020

- 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*. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The Bank adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application on January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Bank elected to apply the standard to all contracts as at January 1, 2018.

  There were no adjustments recognized in the opening balance of Retained earnings at the date of initial application as an effect of initially applying PFRS 15. Also, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related Interpretations.

  From the sources of revenue of the Bank, recognition and measurement of these revenue streams are within the scope of PFRS 15 and, based on the identified performance obligations and delivery of such services, recognition is still aligned with the previous treatment under PAS 18.

  Loyalty Points Program on Credit Card Business
  Before the adoption of PFRS 15, the loyalty program offered by the Bank resulted in the accrual of loyalty expenses for the fair value of estimated redeemable issued loyalty points. The Bank concluded that under PFRS 15, the loyalty points give rise to a separate performance obligation because they provide a material right to the customer and a portion of the transaction price was allocated to the loyalty points awarded to customers. The Bank determined that, considering the relative stand-alone selling prices, the amount allocated to the loyalty points did not have material impact compared to the previous accounting policy.

Therefore, upon the adoption of PFRS 15, no significant impact was identified and thus, there were no adjustments recognized as at January 1 and December 31, 2018.

- *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.

- *Philippine Interpretation* IFRIC-22, *Foreign Currency Transactions and Advance Consideration*. The amendments clarify 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.

Foreign Currency Transactions and Translation

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 equity securities at FVOCI which are recognized directly in "Net change in net unrealized loss on financial assets at FVOCI" in 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 Bankers Association of the Philippines (BAP) closing rate and the Philippine Dealing System (PDS) closing rate (for 2017 and prior years) prevailing at the reporting date.

The foreign currency-denominated monetary assets and liabilities in the RBU are translated in PHP based on the BAP (PDS in 2017 and prior years) closing rate prevailing at the 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 BAP weighted average rate (WAR) for the reporting period (PDS WAR in 2017 and prior years). The assets and liabilities of the FCDU at the reporting date are translated into PHP using BAP (PDS in 2017 and prior years) 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. BAP WAR/PDS WAR vs. BAP/PDS closing rate) of FCDU accounts to PHP as presentation currency 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

(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 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.

Financial Instruments - Classification and Subsequent Measurement

Policies Applicable from January 1, 2018

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

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

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

Business Model Assessment
The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level, not on an instrument-by-instrument basis, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;

- how managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

Solely Payments of Principal and Interest Test
As part of the Bank's classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (e.g., if there are repayments of principal or amortization of the premium or discount). 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a "more than de minimis" exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Bank's measurement categories for financial assets are described below:

(i) Financial Assets at FVPL

Financial assets at FVPL include financial assets held for trading purposes, financial assets designated upon initial recognition at FVPL or financial assets mandatorily required to be measured at fair value. Equity securities are classified as financial assets at FVPL, unless the Bank designates an equity security that is not held for trading as at FVOCI at initial recognition.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt securities to be classified at amortized cost or at FVOCI, as described above, debt securities may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are initially recognized and subsequently measured at fair value in the statements of financial position, with transaction costs recognized in the statements of income. Gains and losses arising from changes in the fair value of financial assets at FVPL and gains and losses arising from disposals of these securities are recognized under "Trading and investment securities (losses) gains - net" account in the statements of income. 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.

Financial assets at FVPL include government and private debt securities held for trading, derivative instruments and debt securities that do not meet the SPPI test. Most of the Bank's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. The Bank may also take positions with the expectation of profiting from favorable movements in prices, rates or indices. The Bank is a counterparty to derivative contracts, such as currency forwards and warrants.

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 an asset in the scope of PFRS 9, the host contract is not in itself carried at FVPL, 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 derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in the statements of income unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statements of financial position together with the host contract.

As at December 31, 2018, the Bank has no outstanding embedded derivatives.

(ii) Financial Assets at Amortized Cost

The Bank measures debt financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included under "Interest income" in the statements of income. Gains and losses are recognized in the statements of income when the financial asset is derecognized, modified or impaired, as well as through the amortization process. The losses arising from ECL is recognized under "Credit and impairment losses" account, while reversals of ECL are recognized under "Reversal of credit and impairment losses" account. The two accounts are netted off in the statements of income. The effects of revaluation on foreign-currency denominated financial assets are recognized under "Foreign exchange gains - net" account in the statements of income.

The Bank's financial assets at amortized cost 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 agreements (SPURA), investment securities at amortized cost, loans and receivables from customers, sales contract receivables, unquoted debt securities, accrued interest receivable, accounts receivable and other receivables.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As at December 31, 2018, the Bank has not made such designation.

(iii) Financial Assets at FVOCI

(a) Debt Securities

The Bank measures debt securities at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Debt securities at FVOCI are subsequently measured at fair value with unrealized gains and losses arising from fair valuation recognized in OCI under the 'Net unrealized losses on financial assets at FVOCI' account in the equity section of the statements of financial position. Interest income and foreign exchange gains and losses are recognized in the statements of income in the same manner as for financial assets measured at amortized cost. The ECL arising from impairment of such investments are recognized in the statements of income with a corresponding charge to "Credit and impairment losses" account if the resulting ECL is impairment losses and to "Reversal of credit and impairment losses" if the resulting ECL is reversal of impairment. Other fair value changes to measure the instrument at fair value is recognized in OCI.

Upon derecognition, the cumulative gains or losses previously recognized in OCI are recognized under "Trading and investment securities (losses) gains - net" account in the statements of income.

(b) Equity Securities

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity securities as at FVOCI. Designation as at FVOCI is not permitted if the equity security is held for trading.

Equity securities designated at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in OCI under "Net unrealized losses on financial assets at FVOCI" account in the equity section of the statements of financial position. Dividends earned on holding equity securities designated at FVOCI are recognized in the statements of income as "Miscellaneous income" when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in OCI is reclassified to "Retained earnings" account in the equity section of the statements of financial position. Equity securities designated at FVOCI are not subject to impairment assessment.

The Bank designated all equity securities that are not held for trading as at FVOCI on initial application of PFRS 9.

Reclassification of Financial Assets

The Bank can reclassify financial assets if the objective of its business model for managing the financial asset changes. Reclassification of financial assets designated at FVPL or equity securities at FVOCI at initial recognition is not permitted.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

Policies Applicable prior to January 1, 2018
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. The accounting policy on financial liability is still applied under PFRS 9.

The Bank's measurement categories are described below:

(i) *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. *Derivative 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 (losses) 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.

Any gains or losses arising from changes in fair value of derivative instruments (except for foreign currency forwards) are recognized under "Trading and investments securities (losses) gains - net" account in the statements of income. For foreign currency forwards, changes in fair value are recognized in "Foreign exchange gains - net" in the statements of income.

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, 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, 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.

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 (losses) 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.

(ii) 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' EIR. The amortization is included under "Interest income" 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.

(iii) Loans and Receivables

Loans and receivables include COCI exclusive of cash on hand, amounts due from BSP and other banks, interbank loans receivable and 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.

(iv) 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 (losses) gains - net" account in the statements of income. Interest earned on holding AFS debt securities are reported as part of "Interest income" 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.

(v) Other Financial Liabilities (Applicable to both prior and from January 1, 2018)

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.

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.

Derecognition of Financial Assets and Financial Liabilities (Applicable to both prior and from January 1, 2018)

(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.

Impairment of Financial Assets *(Policy Applicable beginning January 1, 2018*)
The adoption of PFRS 9 has changed the Bank's impairment method by replacing PAS 39's incurred loss approach with a forward-looking ECL approach. The Bank recognizes ECL for loan and other debt financial assets at amortized cost and at FVOCI, together with loans commitments and financial guarantee contracts. No impairment loss is recognized on equity securities.

Expected Credit Loss Methodology
Under PFRS 9, the Bank measures 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 the 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.

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, considered non-performing, under litigation or is classified as doubtful or loss. In assessing whether a borrower is in default, the Bank considers 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 of a SICR varies by portfolio where the determination of the change in credit risk includes both the quantitative and qualitative factors.

The Bank applies the movement in its Corporate Loan account's credit risk rating and assessment of breach in watchlist triggers to indicate a possible significant credit downgrade or upgrade through a risk rating matrix. While for the remaining portfolios, the Bank considers that a SICR occurs no later than when an asset is more than 30 days past due. The total number of days past due is determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Furthermore, the Bank's internal credit assessment may consider a counterparty to have a SICR since initial recognition if it is identified to have well-defined credit weaknesses. These may include adverse changes in the financial, managerial, economic and/or political nature of a business. Credit weakness can be established by an unsatisfactory track record that merits close monitoring and attention from management.

If there is evidence that there is no longer a SICR relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. For unrated financial instruments, the SICR is measured using the number of days past due which is also consistent with the staging criteria presented above.

ECL Parameters and Methodologies
ECL is a function of the following credit risk parameters:

- Probability of Default (PD)
  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 Bank uses its ICRRS 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 ECL for the Bank.

  The Bank uses the Point-in-Time (PiT) PD in calculating expected credit loss. The Bank starts with an empirical 12-month Through-the-Cycle (TtC) PD for each product type calculated per rating grade.

  The observed default rate, calculated as the number of defaults relative to in-force population, is regressed on the economic input to determine how changes in the economic input impact the default rate.

  The variation between the log-odds of these forecasted default rate is then used to transform the 12-month TtC PD to 12-month PiT PD. The lifetime PDs and conditional PDs are calculated for stage 2 and stage 3 ECLs using the 12-month PiT PD.

- Loss Given Default (LGD)
  LGD measures the percentage amount of credit losses incurred and not recovered at the time of default. LGD estimation is based on historical cash flow recoveries. Calculation of the LGD is adjusted for some assets to consider cashflow recoveries on collateral. While for some financial assets, the Bank supplemented internal assessments with regulatory thresholds to arrive at the LGD assumption.

- Exposure at Default (EAD).
  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 the Bank is exposed to.

Forward-looking Information
The Bank incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL.

The observed Default Rate (DR), calculated as the number of defaults relative to inforce population, is regressed on the GDP growth rate (constant 2000 prices) to determine how changes in the GDP growth rate impact the DR. For the base scenario, the GDP growth rate (based on quarterly data from 1998 to 2018 published by Philippine Statistics Authority) is forecasted and is used to forecast expected DR. For optimistic and pessimistic scenarios, the Bank assumed favorable and less favorable GDP growth rates, respectively. The forecasted GDP growth rates, for both optimistic and pessimistic scenarios, are used to forecast expected DR under different scenarios. The difference between the log-odds of these forecasted DR is called the "Variation". The "Variation" is used to transform the 12-month TtC PD to 12-month PiT PD.

A broad range of forward-looking information are assessed as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, foreign exchange rates, property prices and other economic factors. The key forward-looking economic variable used in each of the economic scenarios for the ECL calculations in 2018 is the GDP growth. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Restructured Loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. Beginning January 1, 2018, when the loan has been restructured but not derecognized, the Bank also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized and a new 'asset' is recognized at fair value using the revised EIR.

Write-offs
Financial assets are written off either partially or in full when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included under "Miscellaneous income" in the statements of income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Impairment of Financial Assets *(Policy Applicable prior to January 1, 2018)*
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 securities 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, 2018 and 2017, 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 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).

Repurchase and Reverse Repurchase Agreements

Securities sold under repurchase agreements (SSURA) 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.

Financial Guarantees and Undrawn Loan Commitments

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

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 in accordance with PFRS 15. The financial guarantee is subsequently carried at the higher of the amount of loss allowance determined in accordance with the ECL model and the amount initially recognized, less when appropriate, the cumulative amount of income recognized in accordance with PFRS 15. Prior to January 1, 2018, 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.

Investment Properties

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 in 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 of 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 the 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, financial assets at FVOCI, 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, financial assets at FVOCI, 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 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. Revenue is measured at the fair value of the consideration received/receivable.

Determining whether the Bank is Acting as a Principal or an Agent

The Bank assesses its revenue arrangements against the following indicators 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 has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer.

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 Bank assessed that its revenue recognition policies did not materially change from PAS 18, except for the recognition of revenues from the Bank's credit card business.

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

Revenues within the Scope of PFRS 15:
The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

Service Charges and Penalties
Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectibility. This arises from deposit-related processing transactions and charges from late payments on loans and drawing against insufficient funds of depositors.

Fees and Commissions

(i) Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These include guarantee fees, credit related fees, investment fund fees, custodian fees, fiduciary fees, portfolio and other management fees. Commitment fees for facilities where a drawdown is not generally expected must be recognized over the facility period. If a drawdown was expected and the commitment expires without the Bank making the loan, the commitment fees are recognized as fee income on expiry of the scheduled drawdown.

(ii) *Fee income earned from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as brokerage fees for the arrangement of the acquisition of shares or other securities are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance obligation are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statements of income when the syndication has been completed and the Bank retains no part of the loans for itself or retains a part of the loan at the same EIR as for the other participants.

Discounts Earned and Awards Revenue on Credit Cards
Discounts received are taken up as income upon receipt from member establishments of charges arising from credit availments by the Bank's cardholders. These discounts are computed based on certain agreed rates and are deducted from the amounts remitted to the member establishments. These also include interchange income from transactions processed by Mastercard, a card network, and fees from cash advance transactions of cardholders.

The amount allocated to the loyalty programmes is deferred and recognized as revenue when the award credits expire or the likelihood of the customer redeeming the loyalty points becomes remote. Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated based on the estimated stand-alone selling prices. Income generated from customer loyalty programmes is recognized in 'Service charges, fees and commissions' in the statements of income.

Other Income
Income from the sale of services is recognized upon completion of the service. Income from sale of properties is recognized when control over properties transfers to the recipients, measured as the difference between the transaction price and the properties' carrying amounts and presented under "Gain on foreclosure and sale of property and equipment and foreclosed assets - net" in the statements of income.

Revenues outside the Scope of PFRS 15

Interest Income
Interest income is recognized in the statements of income for all financial assets measured at amortized cost and FVOCI 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 EIR, but not future credit losses. The EIR is established on initial recognition of the financial asset and liability and is not revised subsequently, except for repricing loans. 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.

Interest on interest-bearing financial assets at FVPL is recognized based on the contractual rate.

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

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus a certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the statements of financial position. The unearned discount is taken up to interest income over the installment term and is computed using the effective interest method.

Trading and Investment Securities Gains or Losses
Trading and investment securities gains or losses represent results arising from disposal of debt securities at FVOCI 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).

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.

Recovery on Charged-off Assets
Income arising from collections on accounts or recoveries from impairment of items previously written off is recognized in the year of recovery.

Expense Recognition
Expense is recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in liability has arisen to the Bank that can be measured reliably.

Interest Expense
Interest expense for all interest-bearing financial liabilities is recognized in "Interest expense" in the statements of income using the EIR of the financial liabilities to which they relate.

Other Expenses
Other expenses include losses and expenses that arise in the ordinary course of business of the Bank and are recognized when incurred.

Employee Benefits
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.

Equity

"Capital stock" is recorded at par for all shares issued and outstanding. Proceeds in excess of par value are recognized under equity as "Paid-in surplus" in the statements of financial position. Incremental costs incurred which are directly attributable to the issuance of new shares are chargeable to "Paid-in surplus".

"Retained earnings" represents the accumulated earnings of the Bank.

"Surplus reserves" represent the appropriation of Retained earnings in relation to allowance for credit losses which are less than the 1.0% general provision prescribed by the BSP for regulatory purposes, profit from trust business, and self-insurance of the Bank.

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, 2018. 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, 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 is currently 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, *Income Taxes,* 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 Bank's chosen tax treatment. If it is not probable that the tax authority will accept the Bank'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 judgments 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 FVOCI 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.

- *Plan Amendment, Curtailment or Settlement (Amendments to* PAS 19, *Employee Benefits).* The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

  The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

- *Annual Improvements to PFRSs 2015-2017 Cycle*

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

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

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

To be Adopted on or after January 1, 2020

- *Amendments to References to* Conceptual Framework in PFRS Standards sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;

  - guidance on reporting financial performance;

  - improved definitions of an asset and a liability, and guidance supporting these definitions; and

  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

  These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- *Definition of Material (Amendments to* PAS 1, *Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).* The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  - raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';

  - including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;

  - clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

  - clarifying the explanatory paragraphs accompanying the definition; and

  - aligning the wording of the definition of material across PFRS Standards and other publications.

  The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements. The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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:

Applicable from January 1, 2018

(a) Business Model Assessment

The Bank manages its financial assets based on the business models that maintain adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investing and trading activities consistent with its risk appetite.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e. group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e. not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank. The level of aggregation at which the business model is applied is based on the specific activities being undertaken by each business unit of the Bank to achieve its stated objectives and other relevant factors such as risks affecting the business model, key performance indicators in evaluating the business model, and how managers of the business are compensated.

The Bank assesses the performance of each business model by considering the activities undertaken by the business models, placing the appropriate key performance indicators and monitoring the frequency of sales activities. PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers facts and circumstances present to assess whether an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a hold-to-collect business model and whether the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

(b) Testing the Cash Flow Characteristics of Financial Assets

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk), i.e. cash flows that are non-SPPI, does not meet the amortized cost and FVOCI criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

Applicable to both 2018 and 2017

(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.

Based on the economic substance of the underlying circumstance relevant to the Bank, the functional currency of the Bank's RBU book of accounts and FCDU book of accounts have been determined to be PHP and USD, respectively.

PHP and USD are the currencies of the primary economic environment in which the Bank operates. These are the currencies that mainly influence the income and costs arising from the Bank operations.

(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 in itself carried at FVPL, 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). The Bank does not have outstanding embedded derivatives as at December 31, 2018 and 2017.

(c) 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).

(d) 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.

Applicable before January 1, 2018

(a) 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.

Estimates

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:

Applicable from January 1, 2018

(a) *Expected Credit Losses on Financial Assets, Loan Commitments and Financial Guarantees*

The Bank reviews its financial assets at amortized cost and debt securities at FVOCI, loan commitments and financial guarantees to assess the amount of credit losses to be recognized in the statements of financial position at least on an annual basis or more frequently, as deemed necessary. The measurement of ECL under PFRS 9 requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL and the assessment of a SICR. These estimates are driven by a number of factors, changes to which can result in different levels of allowances.

Refer to Note 3 for the detailed discussions of the inputs, assumptions and estimation used in measuring ECL under PFRS 9. The related allowance for credit losses subject to ECL are disclosed in Note 17.

Applicable to both 2018 and 2017

(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 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.

(c) *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.

(d) *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.

(e) *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.

(f) *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.

(g) *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).

Applicable before January 1, 2018

(a) *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.

(b) *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.

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.

Internal Capital Adequacy Assessment Process (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 plays a critical role in the credit approval process. It can approve proposals to establish, renew, increase or decrease credit lines or grant term loans within its authority and endorse those proposals which are beyond its authority to either the Executive Committee (ExCom), or the BOD. Aside from this, it has the mandate to settle or restructure non-performing loans or evaluate legal options such as foreclosure or filing of civil or criminal cases. The Crecom likewise ensures that loans or credit accommodations to related parties falling below the materiality thresholds are granted on arms' length basis and are compliant with regulations. Should conflicts that arise between the lending unit and the credit unit on a borrower's risk rating, Crecom is called on to resolve the same. Lastly, Crecom studies proposals to adopt new credit policies or amend existing ones or to offer new loan products or programs, prior to endorsement to the Senior Executive Team and ExCom for 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.

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 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 (VAR) 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. The Bank's front office recommends the credit risk rating of borrowing accounts and classifications and allowance for losses including changes thereon, when necessary. 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 and various management committees of the Bank.

Actual and estimated risk exposures/losses at Treasury, Corporate, 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 11.5% which is the minimum level of CAR acceptable to the Board and a 13.5% 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 the 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 the 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 on 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" in the statements of financial position.

Credit-related Commitment Risks
The Bank makes available to its customers guarantees which may require the Bank to make payments 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 on receivables from customers and sales contract receivables, net of unearned interest income and allowance for credit losses, before and after collateral to credit risk as at December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	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	**P56,586,390,664**	**P53,666,402,617**	P50,041,066,198	P46,120,809,685
Housing loans	**6,749,698,998**	**3,186,311,838**	5,297,974,117	3,176,187,491
Auto loans	**3,484,576,855**	**564,968,917**	2,995,660,391	876,607,131
Bills purchased, import bills and trust receipts	**1,312,270,273**	**1,112,030,550**	1,297,355,954	1,270,787,129
Direct advances	**887,917,068**	**41,429,863**	884,468,678	75,895,907
Agri-agra loans	**349,580,269**	**295,916,004**	1,058,708,467	1,003,121,320
Others	**1,197,667,263**	**1,156,346,723**	1,004,720,921	953,463,806
	70,568,101,390	**60,023,406,512**	62,579,954,726	53,476,872,469
Sales contract receivables	**575,401,971**	**53,712,557**	1,150,301,593	53,812,556
	P71,143,503,361	**P60,077,119,069**	P63,730,256,319	P53,530,685,025

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2018 and 2017.

As at December 31, 2018 and 2017, fair value of collateral held for loans and receivables amounted to P33.2 billion and P30.2 billion, respectively.

The table below shows the Bank's maximum exposures, net of unearned interest income, relating to financial assets carried under Stage 3 as at December 31, 2018:

	Maximum Exposure			
	Before Collateral	Financial Effect of Collateral or Credit Enhancement	After Financial Effect of Collateral or Credit Enhancement	Expected Credit Loss
Receivables from customers:				
Term loans	**P712,430,586**	**P1,492,680**	**P710,937,906**	**P699,277,055**
Auto loans	**179,398,200**	**8,400,661**	**170,997,539**	**87,947,548**
Direct advances	**163,859,471**	**20,000**	**163,839,471**	**163,651,712**
Housing loans	**160,138,753**	**32,656,030**	**127,482,723**	**64,351,872**
Bills purchased, import bills and trust receipts	**78,525,392**	**-**	**78,525,392**	**78,525,392**
Agri-agra loans	**17,663,370**	**-**	**17,663,370**	**17,663,370**
Others	**251,127,639**	**9,659,928**	**241,467,711**	**245,855,001**
	1,563,143,411	**52,229,299**	**1,510,914,112**	**1,357,271,950**
Sales contract receivables	**155,338,868**	**101,626,311**	**53,712,557**	**54,726,120**
	P1,718,482,279	**P153,855,610**	**P1,564,626,669**	**P1,411,998,070**

For the other financial assets carried under Stage 3, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2018.

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.

Credit Quality Per Class of Financial Assets
The credit quality of financial assets is assessed and managed by the Bank using both external and internal credit ratings. The Bank's Internal Credit Risk Rating System (ICRRS) is an established tool used to evaluate the Credit Risk associated with each borrower. The ICRRS assigns a score to each account based on a combination of quantitative and qualitative factors. The scores assigned to each obligor is equivalent to the risk associated to each individual. The scoring model is reviewed and validated by external parties regularly to ensure that the model is risk ranking properly. The risk rating is used as one of the measures of the Bank's risk appetite and as a factor in impairment calculation.

Based on the evaluation of the facility (FRF), the BRR can be upgraded or downgraded to come up with the final credit risk rating (CRR). Such CRR is eventually used in the determination of the ECL.

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 four (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 corporate 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.

<u>Excellent - BRR 1</u>

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.

Past due but not impaired are those accounts for which contractual principal and interest payments were past due but that the Bank still believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed 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.

Unrated accounts include consumer loans portfolio, credit card receivables, benefit loans, accounts receivables, sales contract receivables and returned checks and other cash items (RCOCI). The Bank is currently building a separate credit rating system for these accounts to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

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

The following table shows the credit quality of loans and receivables, excluding unquoted debt securities (gross of allowance for credit losses and net of unearned interest income) as at December 31, 2018 (amounts in thousands).

	Stage 1	Stage 2	Stage 3	Total
Term loans				
Neither past due nor impaired:				
High grade	**P21,073,979**	**P -**	**P -**	**P21,073,979**
Standard grade	**35,693,004**	**103,544**	**-**	**35,796,548**
Unrated	**187,920**	**-**	**-**	**187,920**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**282,081**	**712,431**	**994,512**
	56,954,903	**385,625**	**712,431**	**58,052,959**
Housing loans				
Neither past due nor impaired:				
High grade	**-**	**-**	**-**	**-**
Standard grade	**3,319**	**-**	**-**	**3,319**
Unrated	**6,392,188**	**97,307**	**-**	**6,489,495**
Past due but not impaired	**-**	**306,614**	**-**	**306,614**
Impaired	**-**	**-**	**160,139**	**160,139**
	6,395,507	**403,921**	**160,139**	**6,959,567**
Auto loans				
Neither past due nor impaired:				
High grade	**2,963**	**-**	**-**	**2,963**
Standard grade	**35,222**	**-**	**-**	**35,222**
Unrated	**3,222,626**	**54,393**	**-**	**3,277,019**
Past due but not impaired	**-**	**149,077**	**-**	**149,077**
Impaired	**-**	**-**	**179,398**	**179,398**
	3,260,811	**203,470**	**179,398**	**3,643,679**
Bills purchased, import bills and trust receipts				
Neither past due nor impaired:				
High grade	**829,077**	**-**	**-**	**829,077**
Standard grade	**486,855**	**-**	**-**	**486,855**
Unrated	**-**	**-**	**-**	**-**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**78,525**	**78,525**
	1,315,932	**-**	**78,525**	**1,394,457**

Forward

	Stage 1	Stage 2	Stage 3	Total
Direct advances				
Neither past due nor impaired:				
High grade	**P843,129**	**P -**	**P -**	**P843,129**
Standard grade	**45,046**	**-**	**-**	**45,046**
Unrated	**-**	**-**	**-**	**-**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**163,859**	**163,859**
	888,175	**-**	**163,859**	**1,052,034**
Agri-agra loans				
Neither past due nor impaired:				
High grade	**-**	**-**	**-**	**-**
Standard grade	**354,490**	**-**	**-**	**354,490**
Unrated	**-**	**-**	**-**	**-**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**17,663**	**17,663**
	354,490	**-**	**17,663**	**372,153**
Others*				
Neither past due nor impaired:				
High grade	**-**	**-**	**-**	**-**
Standard grade	**-**	**-**	**-**	**-**
Unrated	**1,194,998**	**383**	**-**	**1,195,381**
Past due but not impaired	**-**	**15,311**	**-**	**15,311**
Impaired	**-**	**-**	**251,128**	**251,128**
	1,194,998	**15,694**	**251,128**	**1,461,820**
Total receivables from customers				
Neither past due nor impaired:				
High grade	**22,749,148**	**-**	**-**	**22,749,148**
Standard grade	**36,617,936**	**103,544**	**-**	**36,721,480**
Unrated	**10,997,732**	**152,083**	**-**	**11,149,815**
Past due but not impaired	**-**	**471,002**	**-**	**471,002**
Impaired	**-**	**282,081**	**1,563,143**	**1,845,224**
	70,364,816	**1,008,710**	**1,563,143**	**72,936,669**
Sales contract receivables				
Neither past due nor impaired:				
High grade	**-**	**-**	**-**	**-**
Standard grade	**-**	**-**	**-**	**-**
Unrated	**474,781**	**-**	**-**	**474,781**
Past due but not impaired	**-**	**4,804**	**-**	**4,804**
Impaired	**-**	**-**	**155,339**	**155,339**
	474,781	**4,804**	**155,339**	**634,924**
Other receivables**				
Neither past due nor impaired				
High grade	**434,623**	**-**	**-**	**434,623**
Standard grade	**431,179**	**1,496**	**-**	**432,675**
Unrated	**256,731**	**984**	**-**	**257,715**
Past due but not impaired	**-**	**22,208**	**-**	**22,208**
Impaired	**-**	**727**	**708,638**	**709,365**
	1,122,533	**25,415**	**708,638**	**1,856,586**
	P71,962,130	**P1,038,929**	**P2,427,120**	**P75,428,179**

**Comprised of benefit loans, salary loans and credit cards.*
*** Comprised of accrued interest receivables, accounts receivables and RCOCI*

The following table shows the credit quality of loan commitment and financial guarantee contracts as at December 31, 2018 (amounts in thousands).

	Stage 1	Stage 2	Stage 3	Total
Loan commitment and financial guarantees				
Neither past due nor impaired:				
High grade	**P -**	**P -**	**P -**	**P -**
Standard grade	**3,894,013**	**-**	**-**	**3,894,013**
Unrated	**5,167,648**	**-**	**-**	**5,167,648**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**
	P9,061,661	**P -**	**P -**	**P9,061,661**

The following table shows the credit quality of financial assets, net of unearned interest income, as at December 31, 2017 (amounts in thousands).

	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*

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 as at December 31, 2017 (amounts in thousands).

	Neither Past Due nor Individually Impaired				Past Due or Impaired	Total
	High Grade	Standard Grade	Substandard	Unrated		
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

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:

	2018	2017
Term loans	**P562,976,094**	P1,093,953,286
Agri-Agra loans	**17,663,370**	17,663,370
Housing loans	**9,975,167**	10,879,498
	P590,614,631	P1,122,496,154

For financial assets such as amounts due from BSP and other banks, interbank loans receivable and SPURA, financial assets at FVPL, financial assets at FVOCI, AFS securities, investment securities at amortized cost, 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, 2018		
	AA - A	**BBB and Below or Unrated**	**Total**
Loans and advances to banks: **			
Due from BSP	**P21,427,032,880**	**P -**	**P21,427,032,880**
Due from other banks	**3,467,105,394**	**371,461,170**	**3,838,566,564**
Interbank loans receivable and SPURA	**11,985,244,744**	**-**	**11,985,244,744**
	36,879,383,018	**371,461,170**	**37,250,844,188**
Financial assets at FVPL:			
Government securities held for trading	**-**	**923,151,534**	**923,151,534**
Derivative assets*	**-**	**26,290,000**	**26,290,000**
Private debt securities	**886,967,594**	**-**	**886,967,594**
	886,967,594	**949,441,534**	**1,836,409,128**
Financial assets at FVOCI:			
Government securities**	**1,051,075,661**	**5,917,691,692**	**6,968,767,353**
Private debt securities**	**847,543,651**	**-**	**847,543,651**
Equity securities	**-**	**157,872,192**	**157,872,192**
	1,898,619,312	**6,075,563,884**	**7,974,183,196**
Investment securities at amortized cost:			
Government securities**	**641,316,453**	**19,479,730,142**	**20,121,046,595**
Private debt securities**	**3,093,150,350**	**-**	**3,093,150,350**
	3,734,466,803	**19,479,730,142**	**23,214,196,945**
Loans and receivables - gross:			
Unquoted debt securities***	**-**	**291,578,207**	**291,578,207**
	-	**291,578,207**	**291,578,207**
	P43,399,436,727	**P27,167,774,937**	**P70,567,211,664**

** Unrated derivatives pertain to warrants*
*** Accounts are neither past due nor impaired and carried at Stage 1 in 2018*
**** Accounts are impaired and carried at Stage 3 in 2018*

	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*

Of the total financial assets above, P68.3 billion is classified as Stage 1, while P291.6 million is under Stage 3. Stage 3 pertains to the unquoted debt securities that has been fully provided as at December 31, 2018.

Aging Analysis of Past Due but not Impaired

The table below shows the aging of past due but not impaired loans and receivables as at December 31, 2018.

	December 31, 2018				
	1-30 days	**31-60 Days**	**61-90 Days**	**More than 90 days**	**Total**
Receivable from customers (gross):					
Housing loans	**P4,163,978**	**P187,802,841**	**P88,329,285**	**P26,318,181**	**P306,614,285**
Auto loans	**112,488**	**97,212,542**	**37,469,915**	**14,282,486**	**149,077,431**
Term loans	**-**	**-**	**-**	**-**	**-**
Others	**108,933**	**9,251,051**	**3,932,412**	**2,018,375**	**15,310,771**
Sales contract receivables	**-**	**3,788,145**	**1,015,491**	**-**	**4,803,636**
Other receivables*	**7,981**	**14,336,476**	**7,383,252**	**480,577**	**22,208,286**
	P4,393,380	**P312,391,055**	**P138,130,355**	**P43,099,619**	**P498,014,409**

** Comprised of accrued interest receivables, accounts receivables, and RCOCI*

	December 31, 2017				
	1-30 days	31-60 Days	61-90 Days	More than 90 days	Total
Receivable from customers:					
Housing loans	P20,178,094	P40,526,079	P17,601,394	P -	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
Other receivables*	-	-	-	-	-
	P89,272,107	P65,623,170	P38,433,693	P -	P193,328,970

** Comprised of accrued interest receivables, accounts receivables, and RCOCI*

Impairment Assessment
Effective January 1, 2018, the Bank recognizes credit losses on financial assets at amortized cost and debt securities at FVOCI based on whether it has had a significant increase in credit risk since initial recognition. ECLs are recognized in two (2) stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Prior to January 1, 2018, 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	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	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, 2018 and 2017 as reported to BSP follows (amounts in thousands):

	2018	2017
Risk-weighted on-balance sheet assets	**P87,875,652**	P76,989,108
Risk-weighted off-balance sheet assets	**5,001,799**	3,162,430
Counterparty risk-weighted assets in the trading book	**13,211**	12,545
	P92,890,662	P80,164,083

The Bank's credit risk-weighted exposures arising from on-balance sheet assets amounting to P87.9 billion contribute 94.6% 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, 2018								
	Exposures, Net of Specific Provisions	Exposures Covered by Credit Risk Mitigation (CRM), Gross of Materiality Threshold	Exposures not Covered by CRM	Risk Weights					Total
				0%	20%	50%	100%	150%	
Cash on hand	P1,748,071	P -	P1,748,071	P1,748,071	P -	P -	P -	P -	P1,748,071
Due from BSP	21,427,033	-	21,427,033	21,427,033	-	-	-	-	21,427,033
Due from other banks	10,016,567	-	10,016,567	-	2,319,054	7,674,204	23,309	-	10,016,567
Financial assets at FVOCI	7,946,733	-	7,946,733	5,011,884	858,013	2,039,253	37,583	-	7,946,733
Investment securities at amortized cost	23,463,232	-	23,463,232	16,082,613	3,114,491	4,266,128	-	-	23,463,232
Loans and receivables	72,192,236	828,127	71,364,109	-	112,853	1,921,513	69,295,845	33,898	71,364,109
Loans and receivables arising from repurchase agreements	5,447,177	-	5,447,177	5,447,177	-	-	-	-	5,447,177
Sales contract receivables	536,602	-	536,602	-	-	-	269,847	266,755	536,602
Real and other properties acquired (ROPA)	2,598,770	-	2,598,770	-	-	-	-	2,598,770	2,598,770
Total exposures, excluding other assets	145,376,421	828,127	144,548,294	49,716,778	6,404,411	15,901,098	69,626,584	2,899,423	144,548,294
Other assets	4,668,502	-	4,668,502	-	-	-	4,668,502	-	4,668,502
Total exposures, including other assets	P150,044,923	P828,127	P149,216,796	P49,716,778	P6,404,411	P15,901,098	P74,295,086	P2,899,423	P149,216,796
Total risk-weighted on-balance sheet assets not covered by CRM					P1,280,882	P7,950,549	P74,295,086	P4,349,135	P87,875,652
Total risk-weighted on-balance sheet assets covered by CRM					-	-	-	-	-
Total risk-weighted on-balance sheet assets					P1,280,882	P7,950,549	P74,295,086	P4,349,135	P87,875,652

	December 31, 2017								
	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	P1,384,982	P -	P1,384,982	P1,384,982	P -	P -	P -	P -	P1,384,982
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

The Bank may use a number of techniques to mitigate the credit risk to which they are exposed. Exposures may be covered by eligible mitigants such as: Cash on deposit with the Bank, Gold, Debt obligations issued by the Philippine National Government or the BSP, Debt Securities issued by central governments and central banks of foreign countries as well as Multilateral Development Banks with at least investment grade external credit ratings, other debt securities with external credit ratings of at least BBB- or its equivalent, unrated senior debt securities issued by Banks with an issuer rating of at least BBB- or its equivalent, or with other debt issues of the same seniority with a rating of at least BBB- or its equivalent, equities included in the main index of an organized exchange, and investments in Unit Investment Trust Funds and the Asian Bond Fund duly approved by the BSP.

With regard to the Bank's on-balance sheet assets, the Bank uses loans collateralized by hold-out deposit agreement as eligible credit risk mitigant (CRM). Credit derivatives are currently not used as credit protection. The documentation used in collateralized transactions 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, 2018					
	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	**P510,646**	**P510,646**	**P510,646**	**P -**	**P510,646**	**P510,646**
Loans to individuals for consumption and other purposes	**317,481**	**317,481**	**317,481**	**-**	**317,481**	**317,481**
Total exposures covered by CRM	**P828,127**	**P828,127**	**P828,127**	**P -**	**P828,127**	**P828,127**
Risk-weighted on-balance sheet assets covered by CRM				**P -**	**P -**	

	December 31, 2017					
	Guaranteed Portion	Total Exposures Covered by CRM	Risk Weights 0%	Risk Weights 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 -	

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. Concentration on a single funding source is also regularly monitored to control the Bank's reliance on a specific product or counterparty.

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, 2018 and 2017 based on contractual undiscounted repayment obligations (amounts in thousands).

	December 31, 2018					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**
Deposit liabilities:						
Demand	**P28,834,196**	**P -**	**P -**	**P -**	**P -**	**P28,834,196**
Savings	**24,085,296**	**48,875,556**	**4,889,595**	**-**	**-**	**77,850,447**
Time	**25,721**	**21,432,142**	**1,448,047**	**2,035,301**	**-**	**24,941,211**
Bills payable	**-**	**557,946**	**13**	**201**		**558,160**
Manager's checks and acceptances payable	**-**	**615,496**	**-**	**-**	**-**	**615,496**
Accrued interest and other expenses*	**-**	**604,534**	**-**	**-**	**-**	**604,534**
Other liabilities**	**-**	**-**	**1,987,021**	**-**	**269,520**	**2,256,541**
Total undiscounted financial liabilities	**P52,945,213**	**P72,085,674**	**P8,324,676**	**P2,035,502**	**P269,520**	**P135,660,585**

**amounts exclude accrued employee and other benefits, accrued taxes payable and accrued lease liability*
***amounts exclude withholding tax payable, retirement liability and ECL on off-balance sheet exposures*

	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 and acceptances payable	-	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*

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

	December 31, 2018				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Commitments	**P2,321,515**	**P1,058,759**	**P1,236,392**	**P3,956,943**	**P8,573,609**
Contingent liabilities	**29,869,311**	**790,610**	**1,784,821**	**1,454,511**	**33,899,253**
	P32,190,826	**P1,849,369**	**P3,021,213**	**P5,411,454**	**P42,472,862**

	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

Market Risk

Market risk arises from the potential decline in earnings and capital due to adverse changes in market conditions and the underlying risk factors, which in turn affect the value and future cash flows of financial instruments, products, and transactions. The Bank is primarily exposed to three sources of market risk, namely: 1) market price risk in the trading book; 2) foreign exchange risk from open foreign currency exposures; and 3) interest rate risk in the banking. The Bank also has equity-related holdings which is a source of equity price risk, although deemed as minimal compared to the first three.

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, 2018 and 2017 as reported to BSP follows (amounts in thousands):

	2018	2017
Interest rate exposures	**P248,830**	P49,326
Foreign exposures	**162,725**	216,549
	P411,555	P265,875

Market Price Risk in the Trading Book
The market price of financial instruments and transactions in the trading book may change unfavorably as a result of movements in interest rates, credit spreads, and other risk factors. The Bank employs an internally developed VAR model, along with other sensitivity metrics, to measure and monitor the probable deterioration in the market value of its trading portfolio. The Bank's RSK simulates the trading book's VAR on a daily basis and the results are compared against Board-approved limits. In addition to the limit on VAR, the trading portfolio is also subject to limits on aggregate exposures, sensitivity metrics, and monthly losses.

Value-at-Risk Methodology
VAR serves as the Bank's key metric in the measurement of risk arising from market price changes of financial assets and foreign currency exposures. Given data for the market risk factors over a 1-year period (260 business days), VAR is the maximum probable loss that may be incurred from positions exposed to market risk. The maximum probable loss is calculated from simulations of daily profit and losses assuming that historical movements in market risk factors will recur, subject to a 99% confidence level and a 1-day holding period.

The Bank's VAR methodology is based on the widely used historical simulation method but with a modification on the usual assumption of equal probabilities in the simulation data points. Profit and loss simulations derived from older data are given less importance by assigning them with progressively lower probabilities of occurrence when used in the calculation of the maximum probable loss.

The table below summarizes the results of the Bank's VAR calculations as at December 31, 2018 and 2017.

	FX Exposures	HFT Securities	FVOCI Securities	Aggregate VAR
2018				
As at December 31, 2018	**P1,175,314**	**P13,308,790**	**P44,346,560**	**P50,612,379**
Average	**1,890,778**	**22,277,694**	**75,621,298**	**85,040,804**
Highest	**4,248,630**	**56,919,543**	**103,270,684**	**127,500,830**
Lowest	**366,575**	**754,136**	**27,468,385**	**50,612,087**
2017				
As at December 31, 2017	1,513,951	982,970	80,817,677	80,157,221
Average	1,873,973	6,865,680	91,304,271	95,501,040
Highest	6,033,252	23,566,467	132,784,078	139,099,287
Lowest	249,193	127,102	64,753,125	65,155,166

Interest Rate Risk
The loans provided by the Bank to its borrowers are mostly funded by the deposits of its branch and corporate customers. The difference in the interest revenues from loans and the interest expense in servicing deposits provide the bulk of the Bank's Net Interest Income (NII). Aside from loans, interest revenue is also provided by holdings in debt securities, repurchase agreements (repo), and other interest-bearing assets. From time to time, the Bank also turns to interbank loans and other sources of funding to supplement deposits and these incur additional interest expense.

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 considers the BRR policy as one of the factors in pricing new customer loans. 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, 2018 and 2017.

	December 31, 2018								
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 -	P1,748	P1,748
Due from BSP	-	-	-	-	-	-	-	21,427	21,427
Due from other banks	-	-	-	-	-	-	-	10,017	10,017
Interbank loans receivable	5,614	-	-	-	-	-	-	(56)	5,558
Financial assets at FVPL	-	-	-	-	-	-	-	949	949
Financial assets at FVOCI	1,207	1,685	1,212	1,564	1,788	-	467	(107)	7,816
Investment securities at AC	102	33	421	2,748	3,469	6,200	11,332	(334)	23,971
Loans - net	14,801	8,524	3,194	6,049	10,044	12,747	13,685	1,627	70,671
Other resources	223	45	-	-	-	-	-	8,995	9,263
	P21,947	P10,287	P4,827	P10,361	P15,301	P18,947	P25,484	P44,266	P151,420
Liabilities and Equity									
Deposit liabilities	P49,873	P21,135	P4,458	P1,006	P1,501	P296	P -	P52,909	P131,178
Demand deposits	-	-	-	-	-	-	-	28,834	28,834
Savings deposits	-	-	-	-	-	-	-	24,075	24,075
Time deposits	49,873	21,135	4,458	1,006	1,501	296	-		78,269
Other liabilities	557	-	-	-	-	-	-	4,162	4,719
	50,430	21,135	4,458	1,006	1,501	296	-	57,071	135,897
Capital funds	-	-	-	-	-	-	-	15,523	15,523
	P50,430	P21,135	P4,458	P1,006	P1,501	P296	P -	P72,594	P151,420
Total periodic gap	(P28,483)	(P10,848)	P369	P9,355	P13,800	P18,651	P25,484	(P28,328)	P -

	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
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	-	727	8,856	10,618
	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 -

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:

	December 31, 2018			
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)**
PHP	**+200**	**(P1,063.87)**	**(P61.33)**	**(P233.55)**
USD	**+100**	**(0.35)**	**(0.19)**	**(94.43)**
PHP	**-200**	**1,063.87**	**61.33**	**233.55**
USD	**-100**	**0.35**	**0.19**	**94.43**

	December 31, 2017			
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)
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

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 one year based on the floating rate of financial assets and financial liabilities held as at December 31, 2018 and 2017. The sensitivity of "Trading and investment securities gains (losses) - net" and OCI is calculated by revaluing fixed-rate financial assets at FVPL and debt securities at FVOCI, respectively, as at December 31, 2018 and 2017. 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.

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.

Similar to market price risk in the trading book, the Bank employs limits and a VAR model 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, 2018 and 2017. 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, 2018			
	USD	**Euro**	**Others**	**Total**
Assets				
Due from other banks	**$307**	**$534**	**$1,552**	**$2,393**
Interbank loans receivable	**3,200**	**-**	**-**	**3,200**
Loans and receivables	**1,333**	**-**	**-**	**1,333**
Total assets	**4,840**	**534**	**1,552**	**6,926**
Liabilities				
Deposit liabilities	**-**	**551**	**-**	**551**
Other liabilities	**215**	**18**	**7**	**240**
Total liabilities	**215**	**569**	**7**	**791**
Net Exposure	**$4,625**	**($35)**	**$1,545**	**$6,135**
Amount in PHP	**P243,183**	**(P1,840)**	**P81,236**	**P322,578**

	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

The table below indicates the currencies which the Bank has significant exposure to as at December 31, 2018 and 2017 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, 2018				
Currency				
USD	**P1.00**	**(P4.63)**	**(P1.00)**	**P4.63**
Euro	**0.50**	**0.02**	**(0.50)**	**(0.02)**
Others	**0.40**	**(0.62)**	**(0.40)**	**0.62**

	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

Given the nature and amount of the Bank's equity investments portfolio in 2018 and 2017, management believes the Bank's exposure to currency risk is considered minimal.

Equity Price Risk
Given the nature and amount of the Bank's equity investments portfolio in 2018 and 2017, management believes the Bank's exposure to equity price 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, Financial Assets at FVOCI, AFS Securities and Investment Securities at Amortized Cost, HTM Investments) - Fair values are based on quoted market prices.

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

Derivative Instruments (Financial Assets at FVPL) - 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. BVAL 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. BVAL 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 - For long-term 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. Carrying amounts of short-term bills payable approximate fair value.

Manager's Checks and Acceptances Payable, 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. Due to preferred shareholders is determined to be long term in nature due to a pending dispute which affects maturity. Fair value cannot be estimated reliably due to limited to lack of supportable data available hence measured at cost.

Fair Value Hierarchy

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 (amounts in thousands):

	December 31, 2018				
	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	**P923,152**	**P896,640**	**P26,512**	**P -**	**P923,152**
Derivative assets	**26,290**	**-**	**26,290**	**-**	**26,290**
Private debt securities	**886,968**	**-**	**886,968**	**-**	**886,968**
Financial Assets at FVOCI:					
Government securities	**6,968,767**	**5,973,404**	**995,363**	**-**	**6,968,767**
Private debt securities	**847,544**	**847,544**	**-**	**-**	**847,544**
Equity securities	**157,872**	**119,762**	**-**	**38,110**	**157,872**
	9,810,593	**7,837,350**	**1,935,133**	**38,110**	**9,810,593**
Non-financial Assets					
Property and equipment*	**1,041,434**	**-**	**1,041,434**	**-**	**1,041,434**
Investment properties	**6,414,383**	**-**	**6,414,383**	**-**	**6,414,383**
	P17,266,410	**P7,837,350**	**P9,390,950**	**P38,110**	**P17,266,410**
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost:					
Government securities	**P20,118,353**	**P13,147,865**	**P4,989,900**	**P -**	**P18,137,765**
Private debt securities	**3,092,735**	**2,906,583**	**-**	**-**	**2,906,583**
Loans and receivables:					
Receivable from customers	**70,581,141**	**-**	**70,040,470**	**-**	**70,040,470**
Less unearned interest	**13,040**	**-**	**13,040**	**-**	**13,040**
	70,568,101	**-**	**70,027,430**	**-**	**70,027,430**
Sales contract receivables	**634,924**	**-**	**607,386**	**-**	**607,386**
	P94,414,113	**P16,054,448**	**P75,624,716**	**P -**	**P91,679,164**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Time deposit liabilities	**P24,735,460**	**P -**	**P24,580,801**	**P -**	**P24,580,801**
Bills payable	**557,472**	**-**	**557,481**	**-**	**557,481**
	P25,292,932	**P -**	**P25,138,282**	**P -**	**P25,138,282**

**Land and building*

	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	-	-	-	-	-
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*

During the current year, due to changes in market conditions for certain GS measured at FVPL and FVOCI, quoted prices in active markets were no longer available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs. Therefore, these securities at FVPL and at FVOCI, with carrying amount of P26.5 million and P995.4 million, respectively, were transferred from Level 1 to Level 2 of the fair value hierarchy.

For 2018 and 2017, there have been no transfers into and out of Level 3 of the fair value hierarchy.

An instrument in its entirety is classified as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived. The fair value of the Level 3 instrument is based on cost which approximates its fair value.

As at December 31, 2018 and 2017, 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.

As at December 31, 2017, 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:

	Note	**2018**	2017
Interbank loans receivable		**P6,485,244,744**	P2,185,787,509
SPURA		**5,500,000,000**	4,130,362,361
		11,985,244,744	6,316,149,870
Less allowance for credit losses	*17*	**1,618,009**	-
		P11,983,626,735	P6,316,149,870

Interbank loans receivable consists of short-term loans granted to other banks.

SPURA represents overnight lending placements with the BSP where the underlying securities cannot be sold or re-pledged to parties other than the BSP.

Interest income on interbank loans receivable and SPURA follows:

	2018	2017
SPURA	**P253,783,499**	P220,005,172
Interbank loans receivable	**12,346,925**	10,652,725
	P266,130,424	P230,657,897

Peso-denominated interbank loans receivable bear interest rates ranging from 3.1% to 5.0% in 2018 and from 2.5% to 3.2% in 2017. Dollar-denominated interbank loans receivable bear interest rates ranging from 0.6% to 1.9% in 2018 and from 0.2% to 1.5% in 2017.

SPURA bears interest rates ranging from 3.0% to 4.8% in 2018 and interest rate of 3.0% in 2017.

8. Financial Assets at Fair Value through Profit or Loss

Financial assets at FVPL consist of:

	2018	2017
Government securities held for trading	**P923,151,534**	P76,081,229
Derivative assets	**26,290,000**	24,965,000
Private debt securities	**886,967,594**	-
	P1,836,409,128	P101,046,229

As at December 31, 2018, private debt securities include investment in MRT III Bonds, with face value and fair value of $20.67 million (P1.1 billion) and $16.9 million (P887.0 million), respectively, that does not qualify as SPPI, thus, classified and measured as financial assets at FVPL.

As at December 31, 2018 and 2017, financial assets and liabilities through FVPL are adjusted for unrealized loss of P19.7 million and P0.8 million, respectively (see Note 27).

As at December 31, 2018 and 2017, 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, 2018 and 2017 and is not indicative of either market risk or credit risk.

	December 31, 2018			December 31, 2017		
	Derivative Assets	**Notional Amount**	**Leverage Exposure**	Derivative Assets	Notional Amount	Leverage Exposure
Freestanding derivatives:						
Warrants	**P26,290,000**	**$50,000**	**$ -**	P24,965,000	$50,000	$ -

9. Financial Assets at Fair Value through Other Comprehensive Income and Available-for-Sale Securities

Financial Assets at FVOCI
As at December 31, 2018, this account consists of:

	Note	
Government securities	*10, 19, 32, 33*	**P6,968,767,353**
Private debt securities	*34*	**847,543,651**
Equity securities	*34*	**157,872,192**
		P7,974,183,196

As at December 31, 2018, the ECL on debt securities at FVOCI included under "Net unrealized loss on financial assets at FVOCI" amounted to P0.8 million (see Note 17).

Equity Securities
This account consists of ordinary shares from a foreign financial institution and a telecommunications company and club shares. The Bank has designated these equity securities as at FVOCI.

Equity 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 2018 amounted to P6.6 million booked under "Miscellaneous Income" in the statements of income (see Note 34).

In 2018, the Bank disposed club shares with carrying value of P7.0 million and transferred to "Retained earnings" account the realized gain of P5.3 million. Dividend income received in 2018 from equity securities at FVOCI amounted to P13.1 million.

AFS Securities
As at December 31, 2017, this account consists of:

	Note	
Quoted		
Government securities	*10, 30, 33*	**P16,088,061,928**
Private debt securities	*10, 34*	**881,950,553**
Equity securities, net of allowance for impairment losses of P6.2 million as at December 31, 2017	*17*	**97,916,000**
		17,067,928,481
Unquoted		
Equity securities, net of allowance for impairment losses of P300.8 million as at December 31, 2017	*17, 34*	**38,722,691**
		P17,106,651,172

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 2017 amounted to and P8.9 million (see Note 34).

Net Unrealized Losses on Financial Assets at FVOCI and AFS Securities
The movements of net unrealized losses on financial assets at FVOCI and AFS securities follow:

	Note	**2018**	2017
Balance at beginning of year		**(P633,965,463)**	(P566,622,743)
Effect of initial application of PFRS 9		**642,511,880**	-
Balance at beginning of year, as restated		**8,546,417**	(566,622,743)
Net unrealized loss recognized as OCI		**(133,365,743)**	(29,788,470)
Realized gains taken to retained earnings		**(5,300,000)**	-
ECL on debt securities at FVOCI	*17*	**196,862**	-
Realized losses (gains) taken to profit or loss	*27*	**164,734**	(37,554,250)
Balance at end of year	*10*	**(P129,757,730)**	(P633,965,463)

10. Investment Securities at Amortized Cost and Held-to-Maturity Investments

Investment Securities at Amortized Cost
As at December 31, 2018, this account consists of:

	Note	
Government securities		**P20,121,046,595**
Private debt securities	*34*	**3,093,150,350**
		23,214,196,945
Less allowance for credit losses	*17*	**3,109,226**
		P23,211,087,719

HTM Investments
As at December 31, 2017, this account consists of:

	Note	
Government securities	*9*	P9,538,398,992
Private debt securities	*9, 34*	2,991,488,213
		P12,529,887,205

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. Realization of the deferred Net unrealized losses on AFS securities reclassified to HTM investments shall be through the amortization of the related securities.

11. Loans and Receivables

This account consists of:

	Note	**2018**	2017
Receivables from customers:			
Term loans		**P58,052,958,523**	P50,853,198,403
Housing loans		**6,959,566,271**	5,333,897,931
Auto loans		**3,643,974,116**	3,156,510,357
Bills purchased, import bills and trust receipts	*21*	**1,394,457,627**	1,370,260,653
Direct advances		**1,055,526,655**	1,014,523,212
Agri-agra loans		**372,157,427**	1,075,247,714
Others		**1,471,067,652**	1,218,169,908
		72,949,708,271	64,021,808,178
Less unearned interest income		**13,039,690**	49,494,222
		72,936,668,581	63,972,313,956
Accrued interest receivable:			
Loans and receivables		**776,572,304**	545,099,123
Trading and investment securities		**293,945,759**	258,625,623
Interbank loans receivable and SPURA		**2,565,849**	934,348
Due from BSP and other banks		**-**	2,333,333
Accounts receivable		**783,088,105**	816,116,579
Sales contract receivables		**634,923,942**	1,204,114,149
Unquoted debt securities		**291,578,207**	1,018,700,594
RCOCI		**414,068**	4,526,608
		75,719,756,815	67,822,764,313
Less allowance for credit losses	*17*	**3,448,695,973**	2,411,635,842
		P72,271,060,842	P65,411,128,471

Bills purchased, import bills and trust receipts includes bills purchased with contra account in "Bills purchased - contra" under "Other Liabilities" amounting to 1.1 billion and P1.2 billion as at December 31, 2018 and 2017, respectively (see Notes 21 and 34). Bills purchased - contra represents liabilities arising from the outright purchases of checks due for clearing as a means of immediate financing offered by the Bank to its clients.

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

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.

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

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, the carrying value of MRT III Bonds amounted to $14.6 million (P727.1 million). 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, unamortized net unrealized losses amounted to $1.2 million (P57.5 million). Amortization of net unrealized loss amounted to $0.2 million (P11.0 million) in 2017.

Upon initial application of PFRS 9, the MRT III Bonds were classified as financial assets at FVPL (see Note 8).

Regulatory Reporting

As at December 31, 2018 and 2017, the breakdown of receivables from customers as to collateral follows (amounts in thousands, except percentages):

	2018		2017	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**P6,684,862**	**9.2**	P5,593,700	8.7
Chattel	**3,263,869**	**4.4**	2,470,369	3.9
Deed of assignment	**2,014,239**	**2.8**	2,096,452	3.3
Deposit hold-out	**880,319**	**1.2**	1,512,774	2.4
Others	**3,556,997**	**4.9**	3,092,462	4.8
	16,400,286	**22.5**	14,765,757	23.1
Unsecured	**56,549,422**	**77.5**	49,256,051	76.9
	P72,949,708	**100.0**	P64,021,808	100.0

As at December 31, 2018 and 2017, information on the concentration of credit as to industry follows (amounts in thousands, except percentages):

	2018		2017	
	Amount	**%**	Amount	%
Real estate activities	**P14,685,641**	**20.1**	P15,571,886	24.3
Electricity, gas, steam, and air-conditioning supply	**13,889,168**	**19.0**	6,362,954	9.9
Construction	**10,682,006**	**14.7**	8,610,270	13.5
Manufacturing	**10,005,836**	**13.7**	10,377,046	16.2
Financial and insurance activities	**5,502,170**	**7.6**	6,053,096	9.5
Agriculture, forestry and fishing	**4,180,643**	**5.7**	1,499,690	2.3
Transportation and storage	**3,418,831**	**4.7**	4,044,839	6.3
Wholesale and retail trade, repair of motor vehicles and motorcycles	**2,120,594**	**2.9**	2,577,977	4.0
Arts, entertainment and recreation	**1,000,000**	**1.4**	2,000,000	3.1
Administrative and support service activities	**954,871**	**1.3**	1,890,587	3.0
Water supply, sewerage, waste management and remediation activities	**453,828**	**0.6**	10,419	0.0
Accommodation and food service activities	**425,385**	**0.6**	252,554	0.4
Others*	**5,631,735**	**7.7**	4,770,490	7.5
	P72,949,708	**100.0**	P64,021,808	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, 2018 and 2017, the Bank does not have credit concentration in any particular industry.

Prior to January 1, 2018, 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, 2018, under BSP Circular No. 941 *Amendments to the Regulations on Past Due and Non-Performing Loans,* loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Prior to January 1, 2018, 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. With the issuance of BSP Circular No. 941, net NPLs shall be computed by deducting the specific allowance for credit losses on NPLs from the gross NPLs.

As at December 31, 2018 and 2017, the NPLs of the Bank, as reported to BSP are as follows:

	2018	2017
Gross NPLs	**P1,574,875**	P1,905,184
Less deductions as required by BSP	**1,301,841**	1,689,148
Net NPLs	**P273,034**	P216,036

Gross and net NPL ratios of the Bank are 2.0% and 0.3%, respectively, as at December 31, 2018 and 2.8% and 0.3%, respectively, as at December 31, 2017.

As at December 31, 2018 and 2017, restructured loans amounted to P0.6 billion and P1.1 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, 2018 and 2017, restructured receivables from customers considered as NPLs amounted to P0.2 billion and P0.5 billion, respectively.

Interest Income on Loans and Receivables
This account consists of:

	Note	**2018**	2017
Receivable from customers:			
Term loans		**P2,719,698,559**	P1,963,878,813
Housing loans		**373,151,392**	286,828,683
Auto loans		**270,126,575**	237,443,581
Direct advances		**31,737,042**	32,391,099
Agri-agra loans		**22,707,796**	28,074,400
Bills purchased, import bills and trust receipts		**19,703,706**	3,850,087
Others		**189,760,452**	145,634,739
		3,626,885,522	2,698,101,402
Sales contract receivable		**41,825,704**	44,974,090
Unquoted debt securities		**-**	103,915,635
		P3,668,711,226	P2,846,991,127

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

As at December 31, 2018 and 2017, 46.7% and 59.6%, respectively, of the total receivables from customers were subject to periodic interest repricing. Peso-denominated loans earn annual fixed interest rates ranging from 1.3% to 54.0% and 1.7% to 54.0% in 2018 and 2017, respectively. Dollar-denominated loans earn annual fixed interest rates ranging from 3.1% to 8.0% and 0.1% to 13.0% in 2018 and 2017, respectively.

Sales contract receivables bear fixed interest rates ranging from 3.4% to 13.2% in 2018 and 2017, respectively.

Unquoted debt securities bear EIR per annum of 12.8% in 2017.

12. Non-current Assets Held for Sale

As at December 31, 2018 and 2017, these non-current assets were stated at carrying amount and comprised the following:

	2018			2017		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Balance at beginning of year	**P -**	**P48,121,557**	**P48,121,557**	P -	P53,667,264	P53,667,264
Disposals	**-**	**-**	**-**	-	(5,545,707)	(5,545,707)
Balance at end of year	**P -**	**P48,121,557**	**P48,121,557**	P -	P48,121,557	P48,121,557

In 2018 and 2017, 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 nil and P6.7 million, respectively.

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	**2018**	2017
Acquisition cost (24.25%-owned)		**P75,395,200**	P75,395,200
Accumulated equity in net loss and OCI:			
Balance at beginning of year		**(23,319,749)**	(21,204,083)
Share in other comprehensive loss		**(4,323,059)**	(316,108)
Share in net loss		**(1,844,496)**	(1,799,558)
Balance at end of year		**(29,487,304)**	(23,319,749)
Allowance for impairment loss	*17*	**(5,925,786)**	(5,925,786)
	34	**P39,982,110**	P46,149,665

The following table shows the summarized financial information of BIC:

	2018**	2017*
Assets	**P185,978,456**	P192,183,508
Liabilities	**(10,448,874)**	(3,297,403)
Net assets	**175,529,582**	188,886,105
Revenues	**1,659,124**	4,602,347
Net loss for the year	**(6,184,369)**	(3,595,492)
OCI (loss) for the year	**(17,827,044)**	27,741
Total comprehensive loss for the year	**(24,011,413)**	(3,567,751)

**Based on 2017 audited financial statements*
***Based on 2018 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 formally requested 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, 2018 and 2017, 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, 2018		
At Cost	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost			
Balance at January 1	**P1,754,713,543**	**P776,819,527**	**P2,531,533,070**
Additions	**141,038,070**	**31,789,650**	**172,827,720**
Disposals	**(246,198,628)**	**(300,000)**	**(246,498,628)**
Balance at December 31	**1,649,552,985**	**808,309,177**	**2,457,862,162**
Less Accumulated Depreciation and Amortization			
Balance at January 1	**1,370,455,000**	**682,792,721**	**2,053,247,721**
Depreciation and amortization	**95,470,830**	**40,020,310**	**135,491,140**
Disposals	**(198,536,387)**	**-**	**(198,536,387)**
Balance at December 31	**1,267,389,443**	**722,813,031**	**1,990,202,474**
Net Book Value at December 31	**P382,163,542**	**P85,496,146**	**P467,659,688**

At Appraised Values	Note	December 31, 2018 Land	Buildings	Total
Revalued Amount				
Balance at January 1		**P129,803,199**	**P803,913,622**	**P933,716,821**
Additions		**-**	**6,480,240**	**6,480,240**
Fair value adjustments	*15*	**52,490,686**	**262,514,961**	**315,005,647**
Reclassifications		**(5,915,000)**	**-**	**(5,915,000)**
Disposals		**-**	**-**	**-**
Balance at December 31		**176,378,885**	**1,072,908,823**	**1,249,287,708**
Less Accumulated Depreciation				
Balance at January 1		**-**	**107,267,666**	**107,267,666**
Depreciation		**-**	**26,705,702**	**26,705,702**
Fair value adjustments		**-**	**67,723,970**	**67,723,970**
Reclassifications		**-**	**-**	**-**
Disposals		**-**	**-**	**-**
Balance at December 31		**-**	**201,697,338**	**201,697,338**
Allowance for impairment losses	*17*	**(5,022,885)**	**(1,133,017)**	**(6,155,902)**
Net Book Value at December 31		**P171,356,000**	**P870,078,468**	**P1,041,434,468**

At Cost	December 31, 2017 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
Less 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

At Appraised Values	Note	December 31, 2017 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	*15*	-	(5,202,992)	(5,202,992)
Reclassifications		-	-	-
Balance at December 31		129,803,199	803,913,622	933,716,821
Less Accumulated Depreciatior				
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

In 2018 and 2017, 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 P3.9 million and P1.0 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 2018 and the Bank recognized increase in fair value of land and buildings of P247.3 million.

As at December 31, 2018 and 2017, 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 P494.6 million and P202.3 million, respectively. These amounts are gross of deferred tax effect amounting to P148.4 million and P60.7 million, respectively (see Note 31).

In 2018, land, with carrying value of P5.9 million and fair value of P10.0 million, which is no longer used for administrative purposes and leased-out to third party, were reclassified from "Property and equipment" account to "Investment properties" account in the statements of financial position. As at December 31, 2018 and 2017, the appraisal increment of the land and building reclassified to "Investment properties" account amounted to P135.3 million and P79.7 million, respectively, gross of deferred tax effect amounting to P40.6 million and P23.9 million, respectively (see Note 31).

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. In 2018, the Bank collected the remaining balance of the installment sale and recognized the P89.4 million tax effect in the statements of income. This amount was previously 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, 2018 and 2017, the cost of fully depreciated property and equipment still in use amounted to P1.0 billion and P1.1 billion, respectively.

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

	December 31, 2018			December 31, 2017		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Cost	**P41,569,630**	**P845,238,581**	**P886,808,211**	P41,570,353	P838,758,342	P880,328,695
Accumulated depreciation	**-**	**(198,472,522)**	**(198,472,522)**	-	(176,496,736)	(176,496,736)
Allowance for impairment losses	**(5,022,885)**	**(1,133,017)**	**(6,155,902)**	(14,733,200)	-	(14,733,200)
	P36,546,745	**P645,633,042**	**P682,179,787**	P26,837,153	P662,261,606	P689,098,759

15. Investment Properties

The movements in investment properties follow:

	Note	December 31, 2018 Land	Buildings	Total
Balance at January 1		**P4,566,715,585**	**P1,234,946,351**	**P5,801,661,936**
Additions		**69,844,352**	**45,708,030**	**115,552,382**
Changes in market value recognized in profit or loss		**678,177,349**	**19,309,405**	**697,486,754**
Changes in market value recognized in OCI	*14*	**4,056,000**	**45,729,600**	**49,785,600**
Reclassifications	*14*	**5,915,000**	**-**	**5,915,000**
Disposals	*14*	**(214,878,677)**	**(41,139,718)**	**(256,018,395)**
Balance at December 31		**P5,109,829,609**	**P1,304,553,668**	**P6,414,383,277**

	Note	December 31, 2017 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	*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

The fair values of the Bank's investment properties have been determined by BSP-acceptable 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:

	2018	2017
Gain on assets sold	**P39,894,544**	P115,382,724
Gain on foreclosure	**26,654,016**	187,371,212
	P66,548,560	P302,753,936

Rental income on investment properties (included in "Miscellaneous income" account in the statements of income) in 2018 and 2017 amounted to P2.0 million and P0.9 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 2018 and 2017 amounted to nil. 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 2018 and 2017 amounted to P61.4 million and P70.7 million, respectively (see Note 30).

16. Other Assets

This account consists of:

	Note	**2018**	2017
Creditable withholding tax		**P897,330,948**	P711,650,302
Intangible assets*		**295,615,203**	328,421,324
Sinking fund	*23*	**269,519,934**	266,378,791
Other properties acquired*		**212,070,712**	44,018,299
Documentary stamps		**86,986,408**	30,283,539
Prepaid expense		**26,717,136**	37,670,546
Miscellaneous assets	*35*	**4,612,365,729**	4,620,746,949
		6,400,606,070	6,039,169,750
Less allowance for impairment losses	*17*	**4,617,176,923**	4,617,538,302
		P1,783,429,147	P1,421,631,448

**net of accumulated amortization/depreciation, gross of allowance for impairment losses*

Intangible Assets
Intangible assets consist of:

	2018	2017
Software costs*	**P235,615,203**	P268,421,324
Branch licenses	**60,000,000**	60,000,000
	295,615,203	328,421,324
Less allowance for impairment losses	**90,278,696**	90,278,696
	P205,336,507	P238,142,628

**net of accumulated amortization, gross of allowance for impairment losses*

Movements in software costs follow:

	2018	2017
Cost		
Balance at January 1	**P705,548,281**	P638,382,285
Additions	**24,575,595**	67,795,996
Disposals and others	**-**	(630,000)
Balance at end of year	**730,123,876**	705,548,281
Less Accumulated Amortization		
Balance at January 1	**437,126,957**	329,866,581
Amortization for the year	**57,381,716**	107,666,376
Disposals and others	**-**	(406,000)
Balance at end of year	**494,508,673**	437,126,957
Less allowance for impairment losses	**90,278,696**	90,278,696
Net Book Value	**P145,336,507**	P178,142,628

Other Properties Acquired
Movements in the other properties acquired follow:

	2018	2017
Cost		
Balance at January 1	**P59,786,522**	P52,178,714
Additions	**232,780,000**	58,058,000
Disposals	**(63,964,000)**	(50,450,192)
Balance at end of year	**228,602,522**	59,786,522
Less Accumulated Depreciation		
Balance at January 1	**15,768,223**	10,190,179
Depreciation for the year	**19,157,017**	18,413,324
Disposals	**(18,393,430)**	(12,835,280)
Balance at end of year	**16,531,810**	15,768,223
Less allowance for impairment losses	**-**	7,188
Net Book Value	**P212,070,712**	P44,011,111

In 2018 and 2017, gain on foreclosure amounted to P3.2 million and P1.0 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 P16.3 million and P6.2 million in 2018 and 2017, 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, 2018 and 2017 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, 2018 and 2017, 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 2018 and 2017, provisions for impairment losses recognized for prudential reporting to BSP amounted to P159.3 million (see Note 35).

17. Allowance for Credit and Impairment Losses

Movements in ECL allowances in 2018 on financial assets, other than loans and receivables, are summarized as follows (amounts in thousands):

	Due from BSP	Due from Other Banks	Interbank Loans Receivable and SPURA (Note 7)	Financial Assets at FVOCI (Note 9)	Investment Securities at Amortized Cost (Note 10)	Total
ECL allowance, January 1, 2018	**P3,470**	**P430**	**P853**	**P566**	**P2,909**	**P8,228**
(Reversal of) credit and impairment losses for the year	**(577)**	**68**	**751**	**197**	**167**	**606**
Foreign exchange differences	**-**	**20**	**14**	**14**	**33**	**81**
ECL allowance, December 31, 2018	**P2,893**	**P518**	**P1,618**	**P777**	**P3,109**	**P8,915**

All accounts above were carried at Stage 1 and there were no transfer into and out of Stage 1 in 2018.

The ECL allowance on financial assets at FVOCI is included in the "Net unrealized losses on financial assets at FVOCI" account in the statements of financial position (see Note 9). In 2018, the Bank recognized reversal of ECL on loan commitment and financial guarantees amounting to P5.9 million (see Note 21).

The table below summarizes the movement in ECL allowances on loans and receivables in 2018 (amounts in thousands).

	Stage 1	Stage 2	Stage 3	Total
Term loans				
ECL allowance, January 1, 2018	**P441,083**	**P273,428**	**P919,280**	**P1,633,791**
(Reversal of) credit and impairment losses for the year	**158,204**	**(100,112)**	**(228,578)**	**(170,486)**
Transfer from Stage 1	**(6,992)**	**-**	**6,992**	**-**
Transfer from Stage 2	**-**	**(2,125)**	**2,125**	**-**
Transfer from Stage 3	**-**	**3,171**	**(3,171)**	**-**
Movements due to foreclosure	**-**	**-**	**-**	**-**
Foreign exchange differences	**310**	**324**	**2,629**	**3,263**
ECL allowance, December 31, 2018	**592,605**	**174,686**	**699,277**	**1,466,568**
Housing loans				
ECL allowance, January 1, 2018	**107,425**	**10,049**	**56,073**	**173,547**
(Reversal of) credit and impairment losses for the year	**20,499**	**1,203**	**17,315**	**39,017**
Transfer from Stage 1	**(9,851)**	**6,877**	**2,974**	**-**
Transfer from Stage 2	**4,938**	**(6,461)**	**1,523**	**-**
Transfer from Stage 3	**6,595**	**4,241**	**(10,836)**	**-**
Movements due to foreclosure	**-**	**-**	**(2,697)**	**(2,697)**
Foreign exchange differences	**-**	**-**	**-**	**-**
ECL allowance, December 31, 2018	**129,606**	**15,909**	**64,352**	**209,867**

Forward

	Stage 1	Stage 2	Stage 3	Total
Auto loans				
ECL allowance, January 1, 2018	**P67,621**	**P6,382**	**P78,233**	**P152,236**
(Reversal of) credit and impairment losses for the year	**223**	**(5,012)**	**25,229**	**20,440**
Transfer from Stage 1	**(7,834)**	**3,948**	**3,886**	**-**
Transfer from Stage 2	**2,203**	**(3,868)**	**1,665**	**-**
Transfer from Stage 3	**4,327**	**3,164**	**(7,491)**	**-**
Movements due to foreclosure	**-**	**-**	**(13,574)**	**(13,574)**
Foreign exchange differences	**-**	**-**	**-**	**-**
ECL allowance, December 31, 2018	**66,540**	**4,614**	**87,948**	**159,102**
Bills purchased, import bills and trust receipts				
ECL allowance, January 1, 2018	**8,579**	**-**	**83,088**	**91,667**
(Reversal of) credit and impairment losses for the year	**(4,926)**	**-**	**(7,325)**	**(12,251)**
Transfer from Stage 1	**-**	**-**	**-**	**-**
Transfer from Stage 2	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Movements due to foreclosure	**-**	**-**	**-**	**-**
Foreign exchange differences	**9**	**-**	**2,762**	**2,771**
ECL allowance, December 31, 2018	**3,662**	**-**	**78,525**	**82,187**
Direct advances				
ECL allowance, January 1, 2018	**588**	**-**	**146,082**	**146,670**
(Reversal of) credit and impairment losses for the year	**19,197**	**-**	**(1,774)**	**17,423**
Transfer from Stage 1	**(19,344)**	**-**	**19,344**	**-**
Transfer from Stage 2	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Movements due to foreclosure	**-**	**-**	**-**	**-**
Foreign exchange differences	**25**	**-**	**-**	**25**
ECL allowance, December 31, 2018	**466**	**-**	**163,652**	**164,118**
Agri-agra loans				
ECL allowance, January 1, 2018	**2,601**	**-**	**17,663**	**20,264**
(Reversal of) credit and impairment losses for the year	**2,310**	**-**	**-**	**2,310**
Transfer from Stage 1	**-**	**-**	**-**	**-**
Transfer from Stage 2	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Movements due to foreclosure	**-**	**-**	**-**	**-**
Foreign exchange differences	**-**	**-**	**-**	**-**
ECL allowance, December 31, 2018	**4,911**	**-**	**17,663**	**22,574**
Others*				
ECL allowance, January 1, 2018	**15,136**	**467**	**204,091**	**219,694**
(Reversal of) credit and impairment losses for the year	**3,030**	**(459)**	**39,543**	**42,114**
Transfer from Stage 1	**(758)**	**82**	**676**	**-**
Transfer from Stage 2	**134**	**(150)**	**16**	**-**
Transfer from Stage 3	**468**	**331**	**(799)**	**-**
Movements due to foreclosure	**-**	**-**	**-**	**-**
Foreign exchange differences	**16**	**-**	**2,328**	**2,344**
ECL allowance, December 31, 2018	**18,026**	**271**	**245,855**	**264,152**

Forward

	Stage 1	Stage 2	Stage 3	Total
Total receivables from customers				
ECL allowance, January 1, 2018	**P643,033**	**P290,326**	**P1,504,510**	**P2,437,869**
(Reversal of) credit and impairment losses for the year	**198,537**	**(104,380)**	**(155,590)**	**(61,433)**
Transfer from Stage 1	**(44,779)**	**10,907**	**33,872**	**-**
Transfer from Stage 2	**7,275**	**(12,604)**	**5,329**	**-**
Transfer from Stage 3	**11,390**	**10,907**	**(22,297)**	**-**
Movements due to foreclosure	**-**	**-**	**(16,271)**	**(16,271)**
Foreign exchange differences	**360**	**324**	**7,719**	**8,403**
ECL allowance, December 31, 2018	**815,816**	**195,480**	**1,357,272**	**2,368,568**
Sales Contract Receivables:				
ECL allowance, January 1, 2018	**10,484**	**138**	**54,692**	**65,314**
(Reversal of) credit and impairment losses for the year	**(5,313)**	**(73)**	**(406)**	**(5,792)**
Transfer from Stage 1	**(471)**	**50**	**421**	**-**
Transfer from Stage 2	**26**	**(68)**	**42**	**-**
Transfer from Stage 3	**22**	**1**	**(23)**	**-**
Movements due to foreclosure	**-**	**-**	**-**	**-**
Foreign exchange differences	**-**	**-**	**-**	**-**
ECL allowance, December 31, 2018	**4,748**	**48**	**54,726**	**59,522**
Other receivables:**				
ECL allowance, January 1, 2018	**7,170**	**14,347**	**971,338**	**992,855**
(Reversal of) credit and impairment losses for the year	**257**	**11,890**	**11,966**	**24,113**
Transfer from Stage 1	**(1,424)**	**971**	**453**	**-**
Transfer from Stage 2	**243**	**(2,031)**	**1,788**	**-**
Transfer from Stage 3	**132**	**50**	**(182)**	**-**
Movements due to foreclosure	**-**	**-**	**(1,188)**	**(1,188)**
Foreign exchange differences	**3**	**20**	**4,803**	**4,826**
ECL allowance, December 31, 2018	**6,381**	**25,247**	**988,978**	**1,020,606**
	P826,945	**P220,775**	**P2,400,976**	**P3,448,696**

** Comprised of benefit loans, salary loans and credit cards.*
*** Comprised of accrued interest receivables, accounts receivables, unquoted debt securities and RCOCI*

The table below summarizes the movement in the gross carrying amounts of financial assets, other than loans and receivables, in 2018 (amounts in thousands).

	Due from BSP	Due from Other Banks	Interbank Loans Receivable and SPURA (Note 7)	Financial Assets at FVOCI (Note 9)	Investment Securities at Amortized Cost (Note 10)
Gross carrying amount, January 1, 2018	**P25,704,212**	**P3,185,996**	**P6,316,150**	**P5,588,102**	**P24,638,395**
New assets purchased or originated	**214,199,278**	**16,572**	**1,855,676,027**	**19,980,907**	**1,217,752**
Assets derecognized or repaid	**(215,699,278)**	**(21,769)**	**(1,854,305,155)**	**(17,541,056)**	**(2,901,000)**
Other movements*	**(2,777,179)**	**657,768**	**4,298,223**	**(53,769)**	**259,050**
Gross carrying amount, December 31, 2018	**P21,427,033**	**P3,838,567**	**P11,985,245**	**P7,974,184**	**P23,214,197**

**Includes movements in outstanding balances and foreign exchange differences*

The table below summarizes the movement in the gross carrying amounts on loans and receivables in 2018 (amounts in thousands).

	Stage 1	Stage 2	Stage 3	Total
Term loans				
Gross carrying amount, January 1, 2018	**P48,916,206**	**P1,000,047**	**P936,946**	**P50,853,199**
New assets purchased or originated	**38,666,734**	**-**	**-**	**38,666,734**
Assets derecognized or repaid	**(26,818,169)**	**(546,678)**	**(230,912)**	**(27,595,759)**
Transfer from Stage 1	**(14,056)**	**-**	**14,056**	**-**
Transfer from Stage 2	**-**	**(14,400)**	**14,400**	**-**
Transfer from Stage 3	**-**	**14,395**	**(14,395)**	**-**
Other movements	**(3,795,812)**	**(67,739)**	**(7,664)**	**(3,871,215)**
Gross carrying amount, December 31, 2018	**56,954,903**	**385,625**	**712,431**	**58,052,959**
Housing loans				
Gross carrying amount, January 1, 2018	**P5,036,735**	**P138,007**	**P159,156**	**P5,333,898**
New assets purchased or originated	**2,254,645**	**-**	**-**	**2,254,645**
Assets derecognized or repaid	**(125,069)**	**(11,196)**	**(37,616)**	**(173,881)**
Transfer from Stage 1	**(414,285)**	**355,132**	**59,153**	**-**
Transfer from Stage 2	**49,323**	**(65,656)**	**16,333**	**-**
Transfer from Stage 3	**15,517**	**17,655**	**(33,172)**	**-**
Other movements	**(421,359)**	**(30,021)**	**(3,715)**	**(455,095)**
Gross carrying amount, December 31, 2018	**6,395,507**	**403,921**	**160,139**	**6,959,567**
Auto loans				
Gross carrying amount, January 1, 2018	**2,842,555**	**151,403**	**162,553**	**3,156,511**
New assets purchased or originated	**1,652,015**	**-**	**-**	**1,652,015**
Assets derecognized or repaid	**(174,703)**	**(25,886)**	**(24,104)**	**(224,693)**
Transfer from Stage 1	**(252,504)**	**210,026**	**42,478**	**-**
Transfer from Stage 2	**39,467**	**(72,859)**	**33,392**	**-**
Transfer from Stage 3	**7,644**	**8,273**	**(15,917)**	**-**
Other movements	**(853,663)**	**(67,487)**	**(19,004)**	**(940,154)**
Gross carrying amount, December 31, 2018	**3,260,811**	**203,470**	**179,398**	**3,643,679**
Bills purchased, import bills and trust receipts				
Gross carrying amount, January 1, 2018	**1,287,172**	**-**	**83,088**	**1,370,260**
New assets purchased or originated	**348,318**	**-**	**-**	**348,318**
Assets derecognized or repaid	**(380,025)**	**-**	**(4,052)**	**(384,077)**
Transfer from Stage 1	**-**	**-**	**-**	**-**
Transfer from Stage 2	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Other movements	**60,467**	**-**	**(511)**	**59,956**
Gross carrying amount, December 31, 2018	**1,315,932**	**-**	**78,525**	**1,394,457**
Direct advances				
Gross carrying amount, January 1, 2018	**868,441**	**-**	**146,082**	**1,014,523**
New assets purchased or originated	**929,598**	**-**	**-**	**929,598**
Assets derecognized or repaid	**(855,697)**	**-**	**-**	**(855,697)**
Transfer from Stage 1	**(22,508)**	**-**	**22,508**	**-**
Transfer from Stage 2	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Other movements	**(31,659)**	**-**	**(4,731)**	**(36,390)**
Gross carrying amount, December 31, 2018	**888,175**	**-**	**163,859**	**1,052,034**

Forward

	Stage 1	Stage 2	Stage 3	Total
Agri-agra loans				
Gross carrying amount, January 1, 2018	**P1,057,584**	**P -**	**P17,663**	**P1,075,247**
New assets purchased or originated	**288,719**	**-**	**-**	**288,719**
Assets derecognized or repaid	**(926,454)**	**-**	**-**	**(926,454)**
Transfer from Stage 1	**-**	**-**	**-**	**-**
Transfer from Stage 2	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Other movements	**(65,359)**	**-**	**-**	**(65,359)**
Gross carrying amount, December 31, 2018	**354,490**	**-**	**17,663**	**372,153**
Others				
Gross carrying amount, January 1, 2018	**985,819**	**21,494**	**210,856**	**1,218,169**
New assets purchased or originated	**479,332**	**-**	**-**	**479,332**
Assets derecognized or repaid	**(183,958)**	**(10,469)**	**(1,343)**	**(195,770)**
Transfer from Stage 1	**(21,355)**	**16,621**	**4,734**	**-**
Transfer from Stage 2	**5,212**	**(5,917)**	**705**	**-**
Transfer from Stage 3	**739**	**1,212**	**(1,951)**	**-**
Other movements	**(70,791)**	**(7,247)**	**38,127**	**(39,911)**
Gross carrying amount, December 31, 2018	**1,194,998**	**15,694**	**251,128**	**1,461,820**
Total receivables from customers				
Gross carrying amount, January 1, 2018	**60,994,512**	**1,310,951**	**1,716,344**	**64,021,807**
New assets purchased or originated	**44,619,361**	**-**	**-**	**44,619,361**
Assets derecognized or repaid	**(29,464,075)**	**(594,229)**	**(298,027)**	**(30,356,331)**
Transfer from Stage 1	**(724,708)**	**581,779**	**142,929**	**-**
Transfer from Stage 2	**94,002**	**(158,832)**	**64,830**	**-**
Transfer from Stage 3	**23,900**	**41,535**	**(65,435)**	**-**
Other movements	**(5,178,176)**	**(172,494)**	**2,502**	**(5,348,168)**
Gross carrying amount, December 31, 2018	**70,364,816**	**1,008,710**	**1,563,143**	**72,936,669**
Sales contract receivables				
Gross carrying amount, January 1, 2018	**1,048,346**	**13,798**	**141,970**	**1,204,114**
New assets purchased or originated	**138,951**	**-**	**-**	**138,951**
Assets derecognized or repaid	**(466,650)**	**(3,331)**	**(26,188)**	**(496,169)**
Transfer from Stage 1	**(51,670)**	**6,530**	**45,140**	**-**
Transfer from Stage 2	**3,769**	**(10,133)**	**6,364**	**-**
Transfer from Stage 3	**4,071**	**161**	**(4,232)**	**-**
Other movements	**(202,036)**	**(2,221)**	**(7,715)**	**(211,972)**
Gross carrying amount, December 31, 2018	**474,781**	**4,804**	**155,339**	**634,924**
Other receivables:				
Gross carrying amount, January 1, 2018	**926,340**	**19,854**	**973,020**	**1,919,214**
New assets purchased or originated	**432,696**	**-**	**-**	**432,696**
Assets derecognized or repaid	**(230,780)**	**(12,857)**	**(20,974)**	**(264,611)**
Transfer from Stage 1	**(61,932)**	**20,339**	**41,593**	**-**
Transfer from Stage 2	**989**	**(3,457)**	**2,468**	**-**
Transfer from Stage 3	**127**	**128**	**(255)**	**-**
Other movements	**55,093**	**1,408**	**4,364**	**60,865**
Gross carrying amount, December 31, 2018	**1,122,533**	**25,415**	**1,000,216**	**2,148,164**
	P71,962,130	**P1,038,929**	**P2,718,698**	**P75,719,757**

Movement in allowance for impairment losses as at December 31, 2018 for investment in associate and non-financial assets are summarized as follows (amounts in thousands):

	Investment in Associate (Note 13)	**Property and Equipment** (Note 14)	**Other Assets** (Note 16)	**Total**
Balance at beginning of year	**P5,926**	**P14,733**	**P4,617,538**	**P4,638,197**
(Reversal of) impairment losses for the year	**-**	**(8,577)**	**(332)**	**(8,909)**
Accounts charged-off	**-**	**-**	**(29)**	**(29)**
Balance at end of year	**P5,926**	**P6,156**	**P4,617,177**	**P4,629,259**

In addition to the reversals of allowance for credit and impairment losses amounting to P57.3 million as disclosed in the tables above, there was a reversal of P89.1 million in 2018 pertaining to a previously-impaired claim of the Bank. It arose from a settlement agreement not fully implemented due to transfer of shares used as payment. Such settlement agreement was rescinded in 2018 and the related loan was settled in cash by the borrower in the same year.

Movement in allowance for credit and impairment losses as at December 31, 2017 are summarized as follows (amounts in thousands):

	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)*

A reconciliation of the allowance for credit and impairment losses, including movement of specific and collective allowance, for loans and receivables as at December 31, 2017 follows:

	Balance at beginning of the year	(Reversal of) credit losses for the year	Accounts charged-off	Foreign exchange differences	Balance at end of year
Term Loans	P981,424,006	(P208,166,077)	P -	P518,462	P773,776,391
Auto Loans	115,739,834	63,631,345	(18,521,435)	-	160,849,744
Direct Advances	126,131,270	(873,684)	-	-	125,257,586
Bills Purchased, Import Bills, and Trust Receipts	77,954,954	(5,050,256)	-	-	72,904,698
Housing Loans	28,508,836	11,446,652	(4,031,675)	-	35,923,813
Agri-Agra Loans	8,203,792	8,104,077	-	-	16,307,869
Others*	1,119,563,671	108,572,706	(1,920,960)	400,324	1,226,615,741
	P2,457,526,363	(P22,335,237)	(P24,474,070)	P918,786	P2,411,635,842
Total Credit Allowance					
Individual Impairment	P1,976,227,774	(P22,437,000)	(P1,920,960)	P907,423	P1,952,777,237
Collective Impairment	P481,298,589	101,763	(22,553,110)	11,363	458,858,605
	P2,457,526,363	(P22,335,237)	(P24,474,070)	P918,786	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*

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 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. On May 24, 2018, the BSP, through Circular No. 1004, approved the reduction in the reserve requirement from 19.0% to 18.0% effective June 1, 2018.

As at December 31, 2018 and 2017, the Bank is in compliance with such reserve requirements. Due from BSP-DDA amounting to P21.4 billion and P24.2 billion as at December 31, 2018 and 2017, respectively, is available for meeting these reserve requirements as reported to BSP.

Due from BSP-Overnight Deposit Accounts earned annual interest rates ranging from 2.5% to 4.3% in 2018 and 2.5% in 2017. Due from BSP-Term Deposit Accounts earned annual interest rates ranging from 2.8% to 4.5% in 2018 and from 3.0% to 3.5% in 2017. Interest income on Due from BSP amounted to P45.2 million in 2018 and P211.6 million in 2017.

Interest expense on deposit liabilities follows:

	2018	2017
Demand	**P372**	P244
Savings	**1,219,886,059**	636,030,314
Time	**289,050,090**	231,078,277
	P1,508,936,521	P867,108,835

Peso-denominated deposits are subject to annual interest rates ranging from 0.1% to 7.4% and from 0.1% to 4.0% in 2018 and 2017, respectively. Foreign currency-denominated deposits are subject to annual interest rates ranging from 0.1% to 3.1% in 2018 and from 0.1% to 2.3% in 2017.

19. Bills Payable

This account consists of:

	2018	2017
SSURA	**P557,291,915**	P -
Other borrowings	**179,700**	267,208
	P557,471,615	P267,208

As at December 31, 2018, the carrying and fair value of foreign currency-denominated financial assets at FVOCI pledged and transferred under SSURA transactions of the Bank amounted to P634.7 million.

As at December 31, 2018 and 2017, there are no short-term borrowings from local banks.

Others include 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 P0.2 million.
Interest expense consists of:

	2018	2017
SSURA	**P8,475,711**	P -
Local banks	**423,182**	548,003
Other borrowings	**1,125,131**	14,463,449
	P10,024,024	P15,011,452

SSURA are subject to annual interest rates ranging from 2.6% to 2.8% in 2018.

Peso-denominated short-term borrowings from local banks are subject to annual interest rates ranging from 3.1% to 4.7% in 2018 and 2.7% to 3.0% in 2017. Foreign currency-denominated short-term borrowings from local banks are subject to annual interest rates ranging from 1.4% to 2.3% in 2018.

Borrowings from rediscounting facility are subject to annual interest rates ranging from 8.0% to 12% in 2018 and 2017.

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	**2018**	2017
Accrued interest payable:			
Deposit liabilities	*18*	**P300,427,537**	P200,070,129
Bills payable	*19*	**4,857,246**	4,085
		305,284,783	200,074,214
Accrued employee and other benefits		**186,091,418**	154,306,096
Accrued insurance		**128,126,284**	116,363,721
Accrued taxes payable		**89,595,933**	151,549,883
Accrued lease liability		**76,266,060**	74,398,052
Accrued penalties		**64,006,418**	64,966,606
Accrued equipment-related expenses		**32,382,387**	47,207,586
Accrued management and professional fees		**18,299,530**	20,879,898
Other accrued expenses		**56,434,412**	77,120,226
		P956,487,225	P906,866,282

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	**2018**	2017
Bills purchased - contra	*11*	**P1,080,666,620**	P1,247,740,827
Accounts payable		**679,783,551**	473,086,703
Due to preferred shareholders	*23*	**269,519,934**	266,378,791
Retirement liability	*28*	**201,207,980**	185,446,237
Other credits-dormant		**106,576,833**	104,910,516
Withholding tax payable		**83,665,901**	54,558,880
Expected credit losses on off-balance sheet exposures		**55,896,267**	-
Due to Treasurer of the Philippines		**53,732,106**	53,480,731
Miscellaneous		**66,262,118**	33,357,250
		P2,597,311,310	P2,418,959,935

Accounts payable mainly pertains to advance payments from customers, inward and outward remittances received by the Bank pending payment or application to designated accounts.

Other credits - dormant account are long outstanding Managers' Checks that are yet to be encashed by the payee for more than one (1) year from the date of check.

ECL on off-balance sheet exposures relate to committed credit line, credit card lines, outstanding guarantees and unused commercial letter of credits (see Note 32). ECL for these exposures that was recognized on January 1, 2018 amounted to P61.8 million and P55.9 million as at December 31, 2018.

Miscellaneous include unearned income from bank guarantee, deposits for keys of safety deposit boxes and unclaimed salaries of resigned employees.

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):

		2018			2017		
	Note	Within 12 Months	Over 12 Months	Total	Within 12 Months	Over 12 Months	Total
Financial Assets - gross							
COCI		**P1,748,071**	**P -**	**P1,748,071**	P1,384,982	P -	P1,384,982
Due from BSP	18	**21,427,033**	**-**	**21,427,033**	25,704,212	-	25,704,212
Due from other banks		**3,838,566**	**-**	**3,838,566**	3,185,996	-	3,185,996
Interbank loans receivable and SPURA	7	**11,985,245**	**-**	**11,985,245**	6,316,150	-	6,316,150
Financial assets at FVPL:	8						
Government securities held-for-trading		**923,152**	**-**	**923,152**	76,081	-	76,081
Derivative assets		**-**	**26,290**	**26,290**	-	24,965	24,965
Private debt securities		**-**	**886,968**	**886,968**	-	-	-
Financial assets at FVOCI:	9						
Quoted government securities		**2,652,838**	**4,315,929**	**6,968,767**	-	-	-
Quoted other debt securities		**558,581**	**288,963**	**847,544**	-	-	-
Quoted equity securities		**-**	**119,762**	**119,762**	-	-	-
Unquoted equity securities		**-**	**38,110**	**38,110**	-	-	-
AFS securities - gross:	9						
Quoted government securities		-	-	-	4,714,350	11,373,711	16,088,061
Quoted other debt securities		-	-	-	-	881,951	881,951
Quoted equity securities		-	-	-	-	104,081	104,081
Unquoted equity securities		-	-	-	-	339,483	339,483
Investment securities at amortized cost - gross:	10						
Quoted government securities		**1,554,155**	**18,566,892**	**20,121,047**	-	-	-
Quoted other debt securities		-	**3,093,150**	**3,093,150**	-	-	-
HTM investments - gross:	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		**23,811,145**	**34,241,813**	**58,052,958**	27,834,297	23,018,901	50,853,198
Housing loans		**497,111**	**6,462,455**	**6,959,566**	17,994	5,315,904	5,333,898
Auto loans		**462,771**	**3,181,203**	**3,643,974**	100,358	3,056,152	3,156,510
Bills purchased, import bills and trust receipts		**1,394,458**	**-**	**1,394,458**	1,370,261	-	1,370,261
Direct advances		**1,046,773**	**8,754**	**1,055,527**	1,001,185	13,338	1,014,523
Agri-agra loans		**316,828**	**55,329**	**372,157**	1,005,056	70,192	1,075,248
Others		**859,444**	**611,624**	**1,471,068**	613,473	604,697	1,218,170
Sales contract receivables		**197,603**	**437,321**	**634,924**	174,079	1,030,036	1,204,115
Unquoted debt securities		**291,578**	**-**	**291,578**	-	1,018,700	1,018,700
Accrued interest receivable		**1,073,084**	**-**	**1,073,084**	806,992	-	806,992
Accounts receivable		**783,088**	**-**	**783,088**	816,116	-	816,116
RCOCI		**414**	**-**	**414**	4,527	-	4,527
Investment in associate	13	**-**	**75,395**	**75,395**	-	75,395	75,395
		75,421,938	**72,409,958**	**147,831,896**	75,126,109	59,457,393	134,583,502
Non-financial Assets - gross							
Non-current assets held for sale	12	**48,122**	**-**	**48,122**	48,122	-	48,122
Property and equipment	14	**-**	**3,707,150**	**3,707,150**	-	3,465,250	3,465,250
Investment properties	15	**-**	**6,414,383**	**6,414,383**	-	5,801,662	5,801,662
Deferred tax assets - net	31	**-**	**-**	**-**	-	108,225	108,225
Other assets	16	**1,180,867**	**5,730,780**	**6,911,647**	956,732	5,535,333	6,492,065
		1,228,989	**15,852,313**	**17,081,302**	1,004,854	14,910,470	15,915,324
		P76,650,927	**P88,262,271**	**164,913,198**	P76,130,963	P74,367,863	150,498,826
Less:							
Allowance for credit and impairment losses	17			**8,086,094**			7,356,758
Accumulated equity in net loss	13			**29,487**			23,320
Accumulated depreciation and amortization	14, 16			**2,702,940**			2,613,411
Unearned interest	11			**13,040**			49,494
Total				**P154,081,637**			P140,455,843

	Note	2018 Within 12 Months	2018 Over 12 Months	2018 Total	2017 Within 12 Months	2017 Over 12 Months	2017 Total
Financial Liabilities							
Deposit liabilities	18						
Demand		**P28,834,196**	**P -**	**P28,834,196**	P26,863,177	P -	P26,863,177
Savings		**77,608,568**	**-**	**77,608,568**	74,895,962	-	74,895,962
Time		**22,854,414**	**1,881,046**	**24,735,460**	15,945,691	1,063,222	17,008,913
Bills payable	19	**557,292**	**180**	**557,472**	20	247	267
Manager's checks		**615,496**	-	**615,496**	560,296	-	560,296
Accrued interest and other expenses*	20	**604,534**	-	**604,534**	526,612	-	526,612
Other liabilities**	21	**1,987,021**	**269,520**	**2,256,541**	1,912,576	266,379	2,178,955
		133,061,521	**2,150,746**	**135,212,267**	120,704,334	1,329,848	122,034,182
Non-financial Liabilities							
Accrued taxes and other expense payable	20	**351,953**	**-**	**351,953**	380,254	-	380,254
Deferred tax liabilities	31	**-**	**90,918**	**90,918**	-	-	-
Other liabilities	21	**340,770**	**-**	**340,770**	240,005	-	240,005
		692,723	**90,918**	**783,641**	620,259	-	620,259
		P133,754,244	**P2,241,664**	**P135,995,908**	P121,324,593	P1,329,848	P122,654,441

**amounts exclude accrued employee and other benefits, accrued taxes payable and accrued lease liability*
***amounts exclude withholding tax payable, retirement liability and ECL of loan commitments and financial guarantees*

23. Capital

As at December 31, 2018 and 2017, 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 P269.5 million and P266.4 million as at December 31, 2018 and 2017, respectively, which is recorded as "Due to preferred shareholders" account under "Other liabilities" in Note 21 to the financial statements. As at December 31, 2018 and 2017, the related sinking fund which is recorded as "Miscellaneous assets" account amounting to P269.5 million and P266.4 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 212.5 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.

Equity Restructuring

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.

Capital Management

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 the 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 the 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 the 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, 2018 and 2017, the reported unimpaired capital of P15.6 billion and P16.2 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 the 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 effective 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, the 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.

On December 6, 2018, BSP Circular 1024 was issued where CET1 capital requirement will now include as an additional capital buffer, the Countercyclical capital buffer (CcyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increases in the CcyB rate shall be effective 12 months after announcement while decreases shall be effective immediately.

The countercyclical buffer requirement will extend the size of the capital conservation buffer. A bank shall not be subject to any restriction on distribution if the following conditions are met:

a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on the declaration of dividends as provided in the MORB;

b. Has CET1 of more than the total required (minimum CET1 ratio of 6.0% plus CCB of 2.5% plus CcyB at the rate determined by the MB) before distribution; and

c. Has complied with the minimum capital ratios (CET1 ratio of 6.0%, Tier 1 ratio of 7.5% and 10.0% CAR) after the distribution.

Otherwise, the policy framework of the capital conservation buffer on the restriction on distributions shall apply, except for drawdowns. Thresholds on the restriction on distribution shall consider the CcyB requirement as an extension of the capital conservation buffer.

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 high quality liquid assets (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 1, 2019.

Based on the LCR report submitted to the BSP as at December 31, 2018, the Bank's LCR is 121.8% which is above the prescribed minimum requirement initially set at 90.0%.

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, 2018 and 2017, based on the CAR reports submitted to BSP, the Bank's CAR of 15.06% and 17.12%, 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 decrease in CAR ratio was mainly due to the increase in the credit risk weighted amount of loans and other risk assets.

The breakdown of the Bank's risk-weighted assets as at December 31, 2018 and 2017 as reported to BSP follows (amounts in thousands):

	2018	2017
Credit risk-weighted assets	**P92,890,662**	P80,164,083
Market-risk weighted assets	**411,555**	265,875
Operational risk-weighted assets	**6,921,163**	6,912,747
	P100,223,380	P87,342,705

The Bank is also required to maintain a minimum Tier 1 capital ratio of 7.5% in 2018 and 2017 (in millions) which was complied as per below:

	2018	2017
Tier 1 capital	**P14,096**	P14,312
Tier 2 capital	**1,001**	643
Total qualifying capital	**P15,097**	P14,955
Risk-weighted assets	**P100,223**	P87,343
Tier 1 capital ratio	**14.1%**	16.4%
Total capital ratio	**15.1%**	17.1%

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) 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;

b) deferral of losses on sold NPLs to SPV Company; and

c) accounting for investment properties.

For items a and c, the recognition of the Bank is based on the accounting treatment approved by BSP (see Notes 11, 15, 16 and 34). For item b, 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:

	2018	2017
Return on average equity	**2.4%**	3.6%
Return on average assets	**0.3%**	0.5%
Net interest margin on average earning assets	**3.4%**	3.3%

24. Surplus Reserves

	2018	2017
Reserve for general provision - special reserve	**P287,401,612**	P -
Reserve for trust business	**107,593,173**	99,442,049
Reserve for self-insurance	**60,000,000**	60,000,000
	P454,994,785	P159,442,049

The BSP, through Circular No. 1011, *Guidelines on the Adoption of the PFRS 9 - Financial Instruments*, requires appropriation of the Bank's Retained earnings in case the computed allowance for credit losses on loans is less than the BSP required 1.0% General Provision.

In compliance with 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	2018	2017
Financial assets at FVPL:	*8*		
Government securities held for trading		**P62,668,042**	P14,902,334
Private debt securities held for trading		**-**	7,169
Financial assets at FVOCI:	*9*		
Government securities		**153,446,491**	-
Private debt securities		**52,899,950**	-
AFS securities:			
Quoted government securities		**-**	428,168,321
Quoted private debt securities		**-**	59,222,004
Investment securities at amortized cost:	*10*		
Government securities		**754,060,444**	-
Private debt securities		**163,479,146**	-
HTM investments:	*10*		
Quoted government securities		**-**	289,987,783
Quoted private debt securities		**-**	158,572,207
		P1,186,554,073	P950,859,818

Foreign currency-denominated financial assets at FVPL bear EIRs ranging from 0.3% to 9.9% in 2018 and from 2.3% to 9.9% in 2017. Peso-denominated financial assets at FVPL bear EIRs ranging from 3.6% to 8.1% in 2018 and 2017.

Foreign currency-denominated and peso-denominated financial assets at FVOCI bear EIRs ranging from 1.1% to 4.5% and from 2.1% to 7.6%, respectively, in 2018.

Foreign currency-denominated and peso-denominated AFS securities bear EIRs ranging from 0.5% to 4.8 and ranging from 2.0% to 7.0%, respectively, in 2017.

Foreign currency-denominated and peso-denominated investment securities at amortized cost bear EIRs ranging from 1.4% to 3.7% and from 2.1% to 8.1%, respectively, in 2018.

Foreign currency-denominated and peso-denominated HTM investments bear EIRs ranging from 2.0% to 3.9% and from 3.9% to 6.8%, respectively, in 2017.

26. Service Charges, Fees and Commissions

This account consists of:

	2018	2017
Service charges	**P137,357,081**	P163,628,784
Trust income	**83,231,022**	81,234,451
Credit card fees	**66,577,112**	38,691,565
Commitment and other loan-related charges	**20,221,761**	55,380,619
Penalty charges	**17,398,727**	37,027,014
Remittance fees	**16,429,495**	5,000,699
Letters of credit fees	**15,382,181**	12,675,118
Telegraphic transfer fees	**3,876,512**	13,051,704
Fees and commissions	**3,374,185**	48,947,595
Others	**27,964,823**	21,087,488
	P391,812,899	P476,725,037

Service charges include charges on loans and deposit taking-related activities.

Others include commission on acceptance fee, insurance, auto and housing loans, processing and sale of demand drafts.

27. Trading and Investment Securities Gains (Losses) - net

This account consists of realized and unrealized gains (losses) from the following securities:

	Note	**2018**	2017
Financial assets and liabilities at FVPL:			
Debt securities			
Realized		**(P89,534,221)**	P19,517,508
Unrealized	*8*	**(19,715,698)**	(811,909)
Financial assets at FVOCI	*9*	**(164,734)**	-
AFS securities		**-**	37,554,250
		(P109,414,653)	P56,259,849

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 Group which is covered by an Investment Management Account (IMA) Agreement (agency relationship).

The date of the last actuarial valuation is January 24, 2019. Valuations are performed on an annual basis.

As at December 31, 2018 and 2017, the principal actuarial assumptions used in determining retirement benefits liability for the Bank's retirement plan are shown below:

	2018	2017
Average working life	**13.0**	13.0
Discount rate	**7.6%**	5.8%
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**	
	2018	2017	**2018**	2017	**2018**	2017
Balance at January 1	**P862,561**	P783,066	**(P677,115)**	(P699,030)	**P185,446**	P84,036
Included in Profit or Loss						
Current service cost	**86,437**	84,189	**-**	-	**86,437**	84,189
Interest expense (income)	**50,028**	43,852	**(39,272)**	(39,146)	**10,756**	4,706
	136,465	128,041	**(39,272)**	(39,146)	**97,193**	88,895
Included in OCI						
Remeasurement loss (gain):						
Actuarial loss (gain) arising from:						
Financial assumptions	**(162,837)**	(19,609)	**-**	-	**(162,837)**	(19,609)
Experience adjustment	**22,345**	(4,200)	**-**	-	**22,345**	(4,200)
Return on plan assets excluding interest income	**-**	-	**59,061**	36,324	**59,061**	36,324
	(140,492)	(23,809)	**59,061**	36,324	**(81,431)**	12,515
Others						
Contributions paid by the employer	**-**	-	**-**	-	**-**	-
Benefits paid	**(36,513)**	(24,737)	**36,513**	24,737	**-**	-
	(36,513)	(24,737)	**36,513**	24,737	**-**	-
Balance at December 31	**P822,021**	P862,561	**(P620,813)**	(P677,115)	**P201,208**	P185,446

The movements of the remeasurement losses on retirement liability of the Bank follow:

	2018	2017
Balance at beginning of year	**P176,743,526**	P164,228,770
Remeasurement losses (gains) on:		
Defined benefits obligation	**(140,492,272)**	(23,809,176)
Plan assets	**59,060,837**	36,323,932
	(81,431,435)	12,514,756
Balance at end of year	**P95,312,091**	P176,743,526

The actual loss on plan assets amounted to P19.8 million in 2018 and the actual return on plan assets amounted to P2.8 million in 2017.

The Bank expects to contribute P202.2 million to its defined benefits retirement plan in 2019.

The major categories of the fair value of plan assets as at December 31, 2018 and 2017 follow:

	2018	2017
AFS securities:		
Government and other debt securities	**P 332,059,647**	P317,412,893
Quoted equity securities	**157,927,336**	177,080,743
Unquoted equity securities	**9,692,186**	10,344,587
Loans receivables	**88,230,785**	142,686,501
Deposits with the Bank	**27,750,343**	20,448,862
Other receivables	**5,152,749**	9,141,048
Total Plan Assets	**P620,813,046**	P677,114,634

As at December 31, 2018 and 2017, the carrying value of the plan assets of the Bank amounted to P621.2 million and P675.9 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, 2018			
	Discount Rate		**Salary Increase Rate**	
	+0.50%	**-0.50%**	**+0.50%**	**-0.50%**
Present value of the defined benefit obligation	**P784,356,340**	**P862,693,794**	**P860,361,110**	**P786,163,520**
Fair value of plan assets	**620,813,046**	**620,813,046**	**620,813,046**	**620,813,046**
Net retirement liability	**P163,543,294**	**P241,880,748**	**P239,548,064**	**P165,350,474**

	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	677,114,634	677,114,634	677,114,634	677,114,634
Net retirement liability	P139,189,153	P235,739,645	P232,458,443	P141,702,903

The maturity analyses of the undiscounted benefit payments as at December 31, 2018 and 2017 are as follows:

	2018	2017
1 - 5 years	**P360,897,955**	P319,464,874
6 - 10 years	**577,648,555**	516,922,281
11 - 15 years	**1,035,581,740**	922,061,325
16 years and up	**4,232,061,011**	4,011,013,118

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 Group, 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, 2018 and 2017.

Compensation and Fringe Benefits
The details of the following accounts for the year ended December 31 follow:

	2018	2017
Salaries and allowances	**P840,818,170**	P777,246,524
Employee benefits	**301,155,953**	288,793,368
Bonuses	**286,446,807**	206,748,204
Retirement	**97,313,094**	88,894,983
Overtime	**32,037,051**	27,579,309
	P1,557,771,075	P1,389,262,388

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 P324.0 million and P298.0 million in 2018 and 2017, respectively.

There are no contingent rentals and restrictions imposed by lease arrangements as at December 31, 2018 and 2017.

Future minimum rentals payable under non-cancellable operating leases follows (amounts in millions):

	2018	2017
Within 1 year	**P178.5**	P162.7
After 1 year but not more than 5 years	**387.2**	308.1
After 5 years	**48.3**	71.7

Bank as Lessor

The Bank leased-out commercial properties for office space. These non-cancellable leases have remaining lease terms ranging from 2 to 3 years. As at December 31, 2018 and 2017, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to P2.2 million and P1.7 million in 2018 and 2017, 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):

	2018	2017
Within 1 year	**P1.2**	P1.2
After 1 year but not more than 5 years	**0.4**	1.6

30. Miscellaneous Expenses

	Note	**2018**	2017
Service fees and commissions		**P140,647,623**	P127,716,118
Fines and penalties		**88,221,536**	25,613,444
Marketing		**62,010,994**	52,528,838
Communications		**54,550,711**	46,891,960
Messengerial services		**48,589,626**	56,458,708
Supervision and examination fee		**44,127,596**	39,011,421
Litigation and acquired assets-related expenses	*15*	**43,538,090**	67,178,048
Forms and supplies		**30,728,779**	36,555,879
Transportation and travel		**18,836,580**	13,574,594
Loss on settlement on PEACe bonds		**-**	53,964,703
Others		**31,105,804**	33,360,879
		P562,357,339	P552,854,592

On April 11, 2017, the Bureau of Treasury paid the Bank the capitalized taxes withheld from the investment in Poverty Eradication and Alleviation Certificates (PEACe) bonds that matured on October 18, 2011. 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.

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 P66.1 million in 2018 and P53.6 million in 2017. 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 Law.

Income tax expense consists of:

	2018	2017
Current:		
Final	**P267,811,760**	P243,315,219
MCIT	**57,182,035**	53,578,087
RCIT	**723,047**	1,303,000
	325,716,842	298,196,306
Deferred	**111,442,137**	79,494,107
	P437,158,979	P377,690,413

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:

	2018	2017
Income before income tax	**P861,873,460**	P1,003,607,573
Income tax at statutory rate	**P258,562,038**	P301,082,272
Additions to (reductions in) income taxes resulting from the tax effects of:		
Nondeductible expenses	**221,683,013**	230,390,965
Changes in unrecognized deferred tax assets	**176,914,988**	(123,372,672)
Tax paid income	**(128,719,151)**	(114,873,639)
Nontaxable income	**(80,259,573)**	(13,912,461)
FCDU income	**556,652**	(26,950,671)
Others	**(11,578,988)**	125,326,619
Effective income tax	**P437,158,979**	P377,690,413

The components of net deferred tax assets and deferred tax liabilities in the statements of financial position follow:

	Beginning Balance (2017 Tax Effect)	Amount (Charged) Credited to Profit or Loss	Amount Recognized in OCI	Ending Balance (2018 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	**43,294,442**	**(9,211,488)**	**-**	**34,082,954**
Accrued rent expense	**18,105,965**	**488,727**	**-**	**18,594,692**
Retirement benefits	**2,610,813**	**(2,610,813)**	**-**	**-**
Other accrued expenses	**86,104,015**	**213,393**	**-**	**86,317,408**
	1,150,316,915	**(11,120,181)**	**-**	**1,139,196,734**
Deferred tax liability:				
Unrealized gain on foreclosed properties	**(794,336,268)**	**(186,857,977)**	**-**	**(981,194,245)**
Revaluation increment on property and equipment and investment properties	**(150,061,224)**	**89,381,044**	**(87,701,207)**	**(148,381,387)**
Gain on investment properties sold under installments	**(60,629,487)**	**13,350,492**	**-**	**(47,278,995)**
Unrealized foreign exchange gain	**(37,064,908)**	**(16,195,515)**	**-**	**(53,260,423)**
	(1,042,091,887)	**(100,321,956)**	**(87,701,207)**	**(1,230,115,050)**
Net Deferred Tax Assets (Liabilities)	**P108,225,028**	**(P111,442,137)**	**(P87,701,207)**	**(P90,918,316)**

	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:

	2018		2017	
	Deductible Temporary Differences	Deferred Tax Asset	Deductible Temporary Differences	Deferred Tax Asset
Allowance for credit and impairment losses	**P2,282,938,129**	**P684,881,439**	P1,818,594,090	P545,578,227
MCIT	**156,443,933**	**156,443,933**	139,567,352	139,567,352
NOLCO	**132,524,525**	**39,757,358**	216,116,009	64,834,803
Retirement benefits	**105,895,889**	**31,768,767**	-	-
Unrealized loss on financial assets at FVPL	**51,954,240**	**15,586,272**	1,595	479
Others	**133,349,893**	**40,004,968**	138,489,621	41,546,886
Deferred tax items not recognized in profit or loss	**2,863,106,609**	**968,442,737**	2,312,768,667	791,527,747
Remeasurement losses on retirement liability	**95,312,091**	**28,593,627**	176,743,526	53,023,058
Unrealized loss on financial assets at FVOCI/AFS securities	**71,179,467**	**21,353,840**	45,965,509	13,789,653
Deferred tax items not recognized in OCI	**166,491,558**	**49,947,467**	222,709,035	66,812,711
	P3,029,598,167	**P1,018,390,204**	P2,535,477,702	P858,340,458

Details of the Bank's RBU NOLCO and MCIT as at December 31, 2018 follow:

NOLCO

Inception Year	Amount	Expired	Balance	Expiry Year
2015	P198,213,009	(P198,213,009)	P -	2018
2016	17,903,000	-	17,903,000	2019
2018	114,621,525	-	114,621,525	2021
	P330,737,534	(P198,213,009)	P132,524,525	

Out of the P359.8 million NOLCO from 2014, P118.1 million was used to offset the Bank's taxable income in 2017 while the remaining balance expired in the same year.

MCIT

Inception Year	Amount	Expired	Balance	Expiry Year
2015	P40,305,455	(P40,305,455)	P -	2018
2016	45,683,810	-	45,683,810	2019
2017	53,578,087	-	53,578,087	2020
2018	57,182,035	-	57,182,035	2021
	P196,749,387	(P40,305,455)	P156,443,932	

MCIT incurred in 2014 was not utilized and thus, expired in 2017.

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, 2018 and 2017:

	Note	**2018**	2017
Contingent assets:			
Future/spot exchange bought		**P379,515,194**	P467,694,759
Outward bills for collection		**14,964,062**	39,680
Fixed income securities purchased		**982,009**	51,273,423
		P395,461,265	P519,007,862
Commitments and contingent liabilities:			
Trust department accounts	*33*	**P31,321,037,537**	P24,681,431,305
Committed credit line	*34*	**5,223,226,985**	3,379,677,419
Credit card lines		**2,321,514,984**	1,316,628,264
Outstanding guarantees		**1,797,089,493**	1,084,782,041
Unused commercial letters of credit		**1,028,866,793**	835,697,160
Future/spot exchange sold		**721,309,376**	1,066,849,174
Late deposits/payments received		**58,798,962**	38,047,439
Fixed income securities sold		**982,009**	461,743
Items held for safekeeping/securities held as collateral		**35,540**	38,552
Inward Bills For Collection-Domestic		**-**	2,024,390
		P42,472,861,679	P32,405,637,487

The Bank has several loan-related suits, claims and regulatory examinations that remain unsettled or ongoing. 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, 2018, the carrying and the fair value of the assets pledged by the Bank to secure outstanding liabilities amounted to P634.7 million. The related liability and expense amounted to P562.1 million and P8.5 million, respectively, as at December 31, 2018. No asset is being pledged by the Bank to secure outstanding liabilities as at December 31, 2017.

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 Group amounted to P31.3 billion and P24.6 billion as at December 31, 2018 (unaudited) and 2017, respectively.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions, GS with a face value of P357.0 million, which have been included under "Investment securities at amortized cost" (see Note 10) and P272.0 million, which have been included under "AFS securities" (see Note 9), are deposited with BSP in 2018 and 2017, respectively.

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:

	2018	2017
Total outstanding DOSRI loans	**P1,945,279**	P2,915,375
Percent of DOSRI loans to total loans	**0.00%**	0.00%
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				
2018				
Investment in associate	*13*	**P -**	**P39,982**	24.25% equity interests in BIC which is a stockholder of the Bank
Share in net loss of associate	*13*	**1,844**	**-**	Share in net loss of BIC
2017				
Investment in associate	*13*	-	46,150	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

Unless otherwise stated, RPTs disclosed are unsecured.

Category	Note	December 31, 2018 Amount/ Volume	December 31, 2018 Outstanding Balance	December 31, 2017 Amount/ Volume	December 31, 2017 Outstanding Balance	Nature, Terms and Conditions
Other related parties						
Financial assets at FVOCI/AFS securities:	*9*					
Unquoted equity securities		**P -**	**P19,014**	P -	P18,836	8.57% equity interest in BANGE
Quoted debt securities		**-**	**847,544**	-	881,951	Short-term and long-term bonds with interest rates ranging from 5.9% to 6.6% with maturity years ranging from 2019 to 2022
Maturities		**-**		42,410		
Investment securities at amortized cost/HTM investments	*10*	**-**	**2,044,392**	-	1,915,228	Long-term bonds issued by affiliates with interest rates ranging from 4.0% to 8.1% with maturity years ranging from 2020 to 2025.
Purchases		**80,990**	**-**	-	-	
Loans and receivables - net:	*11*					
Receivable from customers		**-**	**26,818,759**	-	25,232,710	Term loans with interest rates ranging from 5.3% to 13.0% 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		**82,469,328**	**-**	65,711,059	-	
Settlements		**80,903,417**	**-**	62,533,005	-	
Sales contract receivables		**-**	**33,724**	-	34,766	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		**1,120**	**-**	32,467	-	
Accrued interest receivable		**2,045,134**	**382,728**	1,682,659	279,291	Interest income and accrued interest receivables on term loans and long-term bonds;
Deposit liabilities	*18*	**-**	**29,863,473**	-	25,707,440	Consists of current, savings and time deposits which earn interest at the respective bank deposit rates
Deposits		**3,700,249,029**	**-**	4,537,753,260	-	
Withdrawals		**2,427,698,304**	**-**	3,285,163,490	-	
Accrued interest and other expenses:	*20*					
Accrued interest payable		**253,452**	**26,199**	109,094	5,055	Interest expense and accrued interest payable and other expenses payable include accruals for rent and utilities; On demand, unsecured and non-interest bearing.
Accrued other expenses payable		**133,502**	**1,439**	119,594	127,369	
Other liabilities	*21*	**-**	**1,860**	-	1,964	Consists of accounts payable to Bank's officers; On demand, unsecured and non-interest bearing.
Service fees and commissions	*26*	**24,928**	**-**	49,118	-	Loan and investment-related fees and commission income
Other income	*9*	**36,438**	**-**	105,191	-	Loss from the cash sale transactions of foreclosed properties, dividend received from BANGE and passed-on GRT
Management and professional fees		**22,685**	**-**	33,000	-	Professional fees for assistance in tax assessment and per diem of Directors
Commitments and contingent liabilities	*32*	**-**	**3,408,934**	-	4,782,190	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, 2018 and 2017, outstanding bills purchased of related parties with contra account in "Other liabilities" amounted to P1.0 billion and P1.2 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, 2018 and 2017.

Transactions with Retirement Plans

The Bank's retirement plan is managed and administered by the Bank's Trust Services Group which is covered by an IMA Agreement (agency relationship). The carrying values of the plan per the Trustee Financial Statements amounted to P621.2 million and P675.9 million as at December 31, 2018 and 2017, respectively. The fair values of the plan per the Independent Actuarial Report amounted to P620.8 million and P677.1 million as at December 31, 2018 and 2017, respectively (see Note 28).

Related information on assets/liabilities and income/expense of the funds as at and for the years ended December 31, 2018 (unaudited) and 2017 (audited) follow:

	2018	2017
AFS securities:		
Government and other debt securities	**P332,350,247**	P312,697,602
Quoted equity securities	**158,043,603**	166,034,952
Unquoted equity securities	**9,699,322**	9,699,322
Deposits with the Bank	**27,797,519**	32,597,952
Receivables	**93,304,164**	154,860,178
Total Plan Assets	**P621,194,855**	P675,890,006
Trust fee payable	**P133,379**	P431,023
Other liabilities	**248,430**	400
Total Plan Liabilities	**P381,809**	P431,423

Plan Income	**2018**	2017
Interest income	**P19,722,520**	P17,130,655
Dividend income and others	**498,995**	21,718,072
	P20,221,515	P38,848,727
Plan Expense		
Trust fees	**P1,627,332**	P1,563,075
Reversal of probable losses on equity securities	**(527,867)**	(255,059)
Other expenses	**676,688**	901,138
	P1,776,153	P2,209,154

As at December 31, 2018 and 2017, the retirement plan assets of the Bank include 73,067 shares of the Bank classified under financial assets at FVOCI and AFS equity securities, respectively. The allowance for probable losses on the retirement plan's shares of the Bank amounted to P12.4 million as at December 31, 2018 and 2017. 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).

Interest income on deposit with the Bank amounted to P7,910 and P21,200 as at December 31, 2018 and 2017, 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, 2018 and 2017, the Bank's contribution to its defined benefits retirement plan amounted to nil. Benefits paid out of the Bank's plan assets amounted to P36.5 million and P24.7 million in 2018 and 2017, 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, 2018 and 2017 follows:

	2018	2017
Short-term employee benefits	**P458,986,174**	P411,679,683
Post-employment benefits	**28,220,797**	25,779,545
	P487,206,971	P437,459,228

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, 2018 and 2017 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 P4.4 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, 2018 and 2017 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:

	2018	2017
Noncash investing activities:		
Additions to investment properties and other properties acquired in settlement of loans	**P338,423,348**	P393,449,225
Increase in sales contract receivables from sale of property and equipment, investment properties and non-current assets held for sale	**86,214,038**	762,023,950
Reclassification of AFS securities to HTM investments	**-**	9,633,323,011
Settlement of PEACe Bonds	**-**	707,530,000

The following table shows the reconciliation analysis of liabilities arising from financing liabilities for period ended December 31, 2018 and 2017:

	2018	2017
Beginning balance	**P267,208**	P484,385
Cash flows during the year		
Proceeds	**5,151,699,550**	1,950,000,000
Settlements	**(4,594,495,143)**	(1,950,217,177)
	557,204,407	(217,177)
Non-cash movement		
Foreign exchange movement	**-**	-
Ending balance	**P557,471,615**	P267,208

As allowed by PAS 7, short-term borrowings from local banks amounting to P4.6 billion in 2018 and P2.0 billion in 2017 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	**P415,961,133**
Gross receipts tax	**240,366,786**
Real estate taxes	**37,269,995**
License and permit fees	**24,358,466**
Fringe benefits	**8,743,458**
Capital gains tax	**3,457,393**
Transfer taxes	**1,218,078**
Others	**78,331**
	P731,453,640

In 2018, documentary stamp tax of P28.5 million included above was capitalized as transaction cost of the loan and amortized over the term of the loan in compliance with the requirements of PFRS 9.

B. Withholding Tax Remittances to BIR

As withholding agent, the Bank remitted the following withheld taxes during the year:

Final withholding taxes	**P312,552,221**
Tax on compensation and benefits	**161,095,157**
Expanded withholding taxes	**56,023,976**
	P529,671,354

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, 2018, the Bank has no outstanding tax cases and assessments.

SENIOR OFFICERS

Michelangelo R. Aguilar
President and CEO
Office of the President/CEO

EXECUTIVE VICE PRESIDENTS

Manuel A. Castañeda III
Group Head
Corporate Banking Group 1

Felipe Martin F. Timbol
Group Head
Treasury Management Group

SENIOR VICE PRESIDENTS

Edwin T. Amahan
Group Head
Branch Banking Group

Mary Assumpta Gail C. Bautista
Group Head
Transaction Banking Group

Gamalielh Ariel O. Benavides
Chief Trust Officer
Trust Services Group

Rafael C. Bueno Jr.
Group Head
Corporate Banking Group 2

Anna Marie A. Cruz
Division Head
Branch Product Development, Marketing Services, Customer Service & Consumer Protection

Antonio S. Laquindanum
Chief Financial Officer
Finance Controllership Group

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
Executive Support Group

FIRST VICE PRESIDENTS

Numeriano Manuel V. Amparo
Division Head
TBG-Cash Management Division

Bernadette C. Basobas
Division Head
BBG-Metro Manila Division I

Alfredo J. Bautista
Division Head
ESG-Business Systems Division

Danielyn P. Casaul
Division Head
CBG I-Corporate Banking III Division

Ma. Eleanor Christina S. Castañeda
Division Head
CoG-Consumer Loans Division-Organic Channels

Antonio Basilio C. De Guzman
Division Head
TMG-Product Engineering Structures & Investments Division

Monette G. De Leon
Division Head
TMG-Liquidity & Asset Liability Management Division concurrent Financial Institution Division

Marie Antoinette L. Dela Cruz
Division Head
OG-Treasury Operations Division

Louella P. Ira
Division Head
Legal Services Division

Maria Leticia D. Madridejos
Division Head / Special Assistant to the President
CBG II-Corporate Banking I Division concurrent Office of the President / CEO

Marie Kristin G. Mayo
Division Head
Human Resource Management & Development Division

Juan Angel L. Tinio
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

Amalia Q. Belarmino
Department Head
TSG-Investment & Portfolio Management Department

Orlando M. Bibares
Division Head
OG-Loans Operations Division

Georgina M. Borcelis
Area Head
BBG-MMD I-Metro Manila North Area

Andrew D. Cajucom
Department Head
PDMSCCD-Credit Card Marketing Department

David Marcelino Rock S. Chua
Division Head
ESG-Project Management Division

George E. Consul
Division Head
BBG-Metro Manila Division II

Maria Ana P. Dela Paz
Group Head
Credit Group

Jacqueline A. Domingo
Division Head
BBG-BOD-Branch Operations Control Center

Noel R. Godoy
Division Head
CoG-Consumer Credit Division

Marlene P. Ignacio
Division Head
CBG I-Corporate Banking IV Division

Jocelyn Isabel S. Legaspi
Department Head
LSD-Operations Department

Ma. Isabel D. Lipana
Division Head
BBG-Luzon Division

Corazon T. Llagas
Chief Compliance Officer
Compliance Division

Arturo Gerard T. Medrano III
Division Head
ESG-Acquired Assets Division

Marlo D. Montelibano
Area Head
BBG-VMD-Western Visayas Area

Helen D. Paciencia
Department Head / Project Manager
ESG-ITSD-Applications Interface & Support Department

Dino Joseph A. Ramirez
Division Head
TMG-Fixed Income Trading Division

Cecilia A. Rentoy
Division Head
BBG-Branch Operations Division

Jeremy H. Reyes
Chief Risk Officer
Risk Management Division

Fe Fortunata R. Rio
Department Head
PDMSCCD-Card Operations Department

Ma. Theresa G. Soriano
Area Head
BBG-MMD II-Metro Manila South Area

Ma. Consuelo M. Tan
Division Head
BBG-VisMin Division

Girlie Isabel D. Umali-Requizo
Department Head
CBG I-Remedial Management Department

Baldwin V. Villena
Department Head
HRMDD-Compensation & Benefits Administration Department

Aiveth D. Yuseco
Department Head
TBG-CMD-Cash Management Products Department

ASSISTANT VICE PRESIDENTS

Medallon R. Abrena
Department Head
ESG-BSD-Methods & Standards Department

Ma. Clariza M. Ang
Branch Head
BBG-MMD II-MA-Ayala Branch

Cristina T. Ang Dy Pay
Branch Head
BBG-MMD I-QCA-Del Monte Branch

Ulysses C. Aquino
Department Head/ IT Operations Manager
ESG-ITSD-Operations Management Department

Rommelwin M. Ardidon
Department Head
RMD-IT Risk Management Department

Lourdes V. Arriola
Branch Head
BBG-MMD I-MMNA-Malabon Acacia Branch

Joie Zendel A. Bacar
Branch Head
BBG-MMD II-MMEA-Main Office Branch

Erasmus R. Bagunas
Division Head
FCG-General Accounting and Financial Systems Control Division

Liberty A. Balgemino
Branch Head
BBG-MMD II-MMEA-Main Office Branch

Hazel V. Batocael
Area Head
BBG-VMD-Mindanao Area

Paulyn V. Bernabe
Division Head
TMG-Treasury Marketing & Sales Division

Percelin T. Billate
Department Head / Applications Development and Maintenance Manager
ESG-ITSD-Applications Development & Maintenance Department

Augusto Manuel M. Briones
Department Head
TMG-TMSD-Wholesale Department I

Rafael Lito D. Carbonell
Branch Strategic Support Center Head
BBG-BOD-Branch Strategic Support Center

Januario G. Caringal
Chief Security Officer
Security Department

Lolita B. Carlos
Branch Head
BBG-MMD II-MA-Dela Costa Alfaro Branch

Janet D. Casyao
Division Head
BBG-BOD-Branch Operations Quality Center

Nicole Francine Ariadne C. Chua
Department Head
TMG-FITD-US Treasury Trading Department

Peter M. Co
Area Head
BBG-MMD II-Metro Manila East Area

Leah Antoinette C. Cruz
Department Head
HRMDD-Learning & Development, Employee & Labor Relations Department

Renato B. De Leon
Department Head
FCG-CPD-MIS/Budget Department

Marian G. De Los Reyes
Department Head
CBG I-CBD III-Metro Manila/ Luzon II

Johnny W. Dee
Area Head
BBG-MMD I-Manila Proper Area

Aurora R. Del Rosario
Area Head
BBG-MMD I-Quezon City Area

Joanne A. Del Rosario
Department Head
OG-LOD-Corporate Branch Loans Department

Milliel D. Dela Rosa
Section Head
CoG-CCD-Housing Loans Credit Evaluation Section

Joseph Alfred R. Estiva
Department Head
TMG-FITD-Domestic Fixed Income Department

Lena R. Galang
Department Head
CG-CERD-Credit Evaluation Department

Jean N. Gannaban
Department Head
IAD-Metro Manila Branch Audit Department

Cecilia Ruby D. Gloria
Branch Head
BBG-LD-SLA-San Pedro Branch

Francisco Raymund P. Gonzales
Department Head
BPDMSD-Product Development & Consumer Protection Department

Cenen R. Grajo
Division Head
OG-Electronic Banking & Card Support Division concurrent Centralized Operations Support Division

Rosanne D. Ignacio
Department Head
BPDMSD-Marketing Services Department

Manolo B. Kimpo Jr.
Department Head
TMG-LALM-Domestic Fund Management Department

Romil D. Langones
Division Head
CBG II-Corporate Banking II Division

Joey R. Laqueo
Branch Head
BBG-MMD I-MMNA-Malabon Gen. Luna Branch

Joel O. Longalong
Department Head
IAD-IT Audit Department

Augustus Caesar B. Lopez
Section Head
CoG-CCD-Auto Loans Credit Evaluation Section

Lawrence L. Lusung
Area Head
BBG-LD-Central Luzon Area

Brian Owen T. Macalinao
Section Head
BPDMSD-Cards Business System Administration Department

Paul V. Manlongat
Area Head
BBG-LD-South Luzon Area

Ester S. Maraat
Quality Assurance Officer
BBG-BOD-BOQC-VisMin Division

Ruby P. Mariano
Branch Head
BBG-MMD I-QCA-Kamuning Branch

Roderick M. Martinez
Department Head / Network & Communications Services Manager
ESG-ITSD-Network Management Department

Patricia M. Onda
Sales & Marketing Unit Head
ESG-AMRD-AAMD-Sales & Marketing Section

Katherine Anne E. Ongchangco
Department Head
TSG-Business Development Department

Juline A. Peña
Branch Head
BBG-MMD I-QCA-Broadcast City Branch

Belen T. Ramos
Branch Head
BBG-MMD I-MPA-Soler Branch

Camilla Genevieve A. Rimando
Department Head
TBG-Digital Channels Department

Carmen Dee P. Sallan
Department Head
LSD-Documentation Department

Alfredo T. San Juan Jr.
Department Head
CoG-CLD-Auto Loans Department

Don M. San Juan
Quality Assurance Officer
BBG-BOD-BOQC-Luzon Division

Rio Generoso F. Santiago
Branch Head
BBG-MMD I-QCA-Cubao Branch

Rowena O. Tan
Department Head
OG-TOD-International Treasury Operations Department

Rizaldy D. Tolentino
Department Head
CBG 1-CBD 3-Metro Manila/ Luzon

Arlyn C. Valero
Division Head
ESG-General Services Division

Carolina R. Vicente
Project Manager
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, 2018)

BRANCH / ATM DIRECTORY

METRO MANILA	ATMS	BRANCHES
Caloocan	3	2
Las Piñas City	3	1
Makati City	11	10
Malabon	3	2
Mandaluyong City	10	2
Manila	19	11
Marikina	5	3
Muntinlupa	5	1
Parañaque	5	3
Pasay City	8	4
Pasig City	5	2
Quezon City	26	16
San Juan	1	1
Taguig	5	2
Valenzuela	4	1
LUZON		
Albay	2	1
Baguio	3	1
Bataan	4	1
Batangas	7	4
Bulacan	6	4
Cagayan	2	1
Camarines Sur	1	1
Cavite	4	2
Ilocos Norte	5	1
Ilocos Sur	4	2
Isabela	2	2
La Union	5	2
Laguna	14	4
Nueva Ecija	1	1
Oriental Mindoro	1	1
Palawan	1	1
Pampanga	14	6
Pangasinan	6	2
Quezon	1	1
Rizal	5	1
Tarlac	1	1
Zambales	6	3
VISAYAS		
Aklan	3	1
Bohol	1	1
Capiz	1	1
Cebu	14	8
Iloilo	6	5
Leyte	2	2
Negros Occidental	6	4
Negros Oriental	1	1
MINDANAO		
Agusan Del Norte	4	1
Bukidnon	2	1
Davao Del Norte	1	1
Davao Del Sur	4	3
General Santos	1	1
Lanao Del Norte	1	1
Misamis Oriental	6	3
Zamboanga del Sur	3	2
GRAND TOTAL	264	140

METRO MANILA

MAKATI AREA

AYALA
G/F STI Holdings Building, 6764 Ayala Ave., Makati City
891-3814 / 219-02-55 / 810-0651 (Fax)

BEL-AIR PETRON
Bel-Air Petron Square, 363 Sen. Gil Puyat Avenue, Brgy. Bel-Air Makati City
898-2309 / 219-0279 / 896-7085 (Fax)

BONIFACIO HIGH STREET
G/F Active Fun Bldg., 9th Avenue corner 28th Street Fort Bonifacio, Taguig City
779-8023 / 779-8024 (Telefax) / 957-9320 (Globe Duo)

DELA ROSA
G/F King's Court Building II, 2129 Dela Rosa cor. Chino Roces Avenue, Makati City
831-7156 / 831-7155 (Fax)

DELA COSTA - ALFARO
G/F Don Chua Lamko Bldg., Dela Costa cor. Leviste St., Salcedo Village, Makati City
840-2789 / 261-0762 / 840-2719 (Fax)

FORT BONIFACIO GLOBAL CITY
G/F Kensington Place, Burgos Circle, Fort Bonifacio, Taguig City
856-1707 / 219-0107 / 856-1696 (Fax)

JUPITER
64/66 Jupiter St., Brgy. Bel-Air, Makati City
828-4397 / 219-0258 / 869-8812 (Fax)

₱ ATM ATM AVAILABLE

MAGALLANES
G/F Tritan Plaza Bldg., Paseo de Magallanes, Makati City
851-1424 / 219-0153 / 854-9611 (Fax)

MAKATI AVENUE - ZUELLIG
Unit 2, G/F Zuellig Bldg. Makati Avenue cor. Paseo de Roxas and Sta. Potenciana Streets, Makati City
961-7628 / 219-0127 / 961-8364 (Fax)

PASAY ROAD
Cedar Executive Bldg., 1006 A. Arnaiz Ave. (Pasay Road), San Lorenzo Village, Makati City
840-5612 / 219-0261 / 576-5035 / 840-5640 (Fax)

PASONG TAMO EXTENSION
2295 Opvi Center Pasong Tamo Ext. Makati City
892-9700 / 219-0271 / 817-9300 (Fax)

ROCKWELL
Level P1 The Powerplant Mall, Rockwell Center, Makati City
898-1523 / 219-0114 / 898-1522 (Fax)

SALCEDO
GF, Aguirre Building, 108 Tordesillas cor. H.V. Dela Costa Streets, Salcedo Village, Bel-Air, Makati City
813-2220 / 813-2734 (Fax)

METRO MANILA NORTH AREA

BALIUAG
Victoria Bldg., Poblacion, Baliuag, Bulacan
(044) 766-7701 / (044) 766-2811 (Fax)

BALIUAG DRT HIGHWAY
Unit 6-11, 3006 Augustine Square Commercial Complex, Doña Remedios Trinidad (DRT) Highway, Baliuag, Bulacan
(044) 798-1799

BANAWE
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)

KAMUNING
Tomas Morato Ave. cor. Dr. Lascano St., Kamuning Quezon City
261 0766 / 922-7981 / 922-7982 (Fax)

MALABON
29 Gov. Pascual Acacia Ave., 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
Block 2 Lot 12, Quirino Highway cor.Diamond Crest Village, Brgy. San Manuel, City of San Jose Del Monte, Bulacan
(044) 802-8866

STA. MARIA
Jover Bldg., Brgy. Sta. Clara, Narra St., Sta. Maria, Bulacan
(044) 796-3797 / (044) 796-3813

VALENZUELA
Unit 12 & 13, Puregold Price Club, Brgy. Dalandanan, McArthur Highway, Valenzuela
322-2260/ 794-6058 / 794-6064 (Fax)

METRO MANILA SOUTH AREA

ALABANG
Unit 6 El Molito Bldg., Madrigal Ave, Alabang, Muntinlupa City
850-8718 / 219-0121 / 850-1574 (Fax)

BICUTAN
G/F FilHome Builders Bldg., 68 Doña Soledad Ave., Parañaque City
219-0129 / 776-4146 / 831-2546 / 823-2321 (Fax)

BF HOMES
33 President's Ave., Brgy. B.F. Homes, Parañaque City
219-0149 / 403-8941 (Fax)

DASMARIÑAS - CAVITE
Veluz-Frances Plaza Bldg., Aguinaldo Highway, Dasmariñas, Cavite
Manila Line: (02) 529-8129 (Fax)
Cavite Line: (046) 416-2335

IMUS
Lot 3 Blk 1, Anabu 1, Aguinaldo Highway, Imus, Cavite
(046) 438-8451 (Fax)

LAS PIÑAS
Elena Bldg., Real St., Alabang-Zapote Road, Pamplona, Las Piñas City
(02) 219-0128/ 556-1507 / 556-1501 / 556-1506 (Fax)

NAIA
NAIA Arrival Area, Terminal 1, Pasay City
(02) 219-0132 / 853-0712 / 833-0713 (Fax)

NAIA TERMINAL 3
Stall 14, Arrival Lobby, NAIA Terminal 3 Complex, 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
851-2680 / 219-0185 / 854-4071 (Fax)

RESORTS WORLD
G/F Resorts World Complex, Newport City, Pasay City
219- 0197 / 551-3521 / 551-3520 (Fax)

SUCAT
Fortuna II Bldg., 8338 Dr. A. Santos Ave., Sucat, Parañaque City
826-8415 / 219-0169 / 820-7747 (Fax)

MANILA PROPER AREA

ADUANA
G/F FEMII (Main) Bldg., A. Soriano St., Aduana, Intramuros, Manila
527-2893 / 219-0180 / 527-2947 (Fax)

ERMITA
1312 A. Mabini St., Ermita, Manila
254-7549 / 219-0178

DASMARIÑAS - BINONDO
STP Bldg., Dasmariñas St. cor. Marquina St., Binondo, Manila
247-1472 / 247-1473

JUAN LUNA
465 Juan Luna St., Binondo, Manila
241-0234 / 241-0407 (Fax)

PORT AREA
G/F Mary Bachrach cor. 25th & AC Delgado Sts., Port Area, Manila
527-7986 / 219-0191 / 527-3978 (Fax)

QUIAPO
609 Sales St., Quiapo, Manila
733-9326 / 733-9366 (Fax)

SOLER
1004 Reina Regente cor. Soler St., 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 AVENUE
G/F Endriga Bldg., 2270 Taft Ave., Malate, Manila
523-2297 / 219-0194 / 521-9124 (Fax)

TAFT - PGH
G/F Mirasol Bldg., 854 Apacible St. cor. Taft Ave., Ermita, Manila
536-4959 / 219-0199 / 526-6049 (Fax)

TUTUBAN
Units M2-60 21 and 22 Ground Center Mall Tutuban Center, C.M. Recto Ave., Manila
219-0124 / 356-0086 (Fax)

UN AVENUE
429 Victoria Bldg., United Nations Ave., 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
PACLEB Bldg., 52 Bayan-Bayanan Ave., Concepcion, 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
Eisenhower Tower, No. 7, Eisenhower St., Greenhills, San Juan
723-5380 / 219-0207 / 727-4936 to 39 / 721-0990 / 753-5380 (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 / 633-9296 (Fax)

MARCOS HIGHWAY
Unit 10, Thaddeus Arcade, Pitpitan cor. Gil Fernando Ave., San Roque, Marikina City
641-7172 / 219-2723 / 647-7165 (Fax)

MARIKINA
J.P. Rizal St., 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
650-6560 / 217-3403 / 650-6561 (Fax)

WACK-WACK PETRON
553 Shaw Blvd., Brgy. Wack-Wack, Mandaluyong City
738-1984 / 219-0242 / 738-1985 (Fax)

QUEZON CITY AREA

BROADCAST CITY
Broadcast City Compound, Capitol Hills, Quezon City
932-4628 / 219-0188 / 932-4969 (Fax)

COMMONWEALTH
G/F Verde Oro Bldg., 535 Commonwealth Ave., Old 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
E. Rodriguez Sr. Ave. cor. 84 Hemady St., Brgy. Mariana, New Manila, 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 Ave. cor. Masaya St., Diliman, Quezon City
927-6074 / 219-7093 / 920-2324 (Fax)

FAIRVIEW PETRON
Petron Fairview, Commonwealth Ave., Fairview, Quezon City
376-1023 / 376-1025 (Fax)

KATIPUNAN - PETRON
Petron Katipunan Complex, Katipunan Ave. cor. Mangyan Road, La Vista, Quezon City
921-4020 / 219-0174 / 921-4042 (Fax)

QUEZON AVENUE
Sto. Domingo Church Compound, #8 Biak na Bato St., cor. Quezon Ave., Quezon City
712-2534 / 732-8360 (Fax)

VISAYAS AVENUE
No. 15 Visayas Avenue Ext. Barangay Culiat, Quezon City
219-0155 / 426-4854 (Fax)

WEST AVENUE
No. 68 – A Carbal Building West Avenue, 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)

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, 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 (Telefax)

DAGUPAN
Eastgate Plaza Bldg., A.B. Fernandez East, Dagupan City, Pangasinan
(075) 522-8691 / (075) 522-8963 (Fax)

LAOAG
N. Corpuz Bldg., JP Rizal cor. Gen Hizon St., Laoag City
(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, Villasis, Santiago City
(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 St., 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
McArthur Highway cor. Victor St., Balibago, Angeles City
(045) 892-0875 / (045) 331-3389 / (045) 625-5586 (Fax)

CABANATUAN
V. P Bldg maharlika Hi-way 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, PAMPANGA
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
The Venue Annex Bldg., Unit A, 101 Rizal Highway, Subic Freeport Zone
(047) 252-1851 / (047) 252-1863 (Fax)

TARLAC
Unit 110-112 Rising Sun Bldg., Block 4, Brgy. San Nicolas, MacArthur Highway, Tarlac City
(045) 982-5401 / (045) 982-5365 (Fax)

MABALACAT
Mc Arthur Highway, San Francisco, Mabalacat City
(045) 649-4407 / (045) 308-0516

SINDALAN
Jumbo Jenra Brgy. Sindalan McArthur Highway, San Fernando City
(045) 403-9338 / (045) 409-8108

SOUTH LUZON AREA

BATANGAS - CAEDO
Caedo Commercial Complex, Calicanto, Batangas City, Batangas
(043) 723-6773 / (043) 723-1410 (Fax)

BATANGAS - P. BURGOS
No. 27 P. Burgos St., Batangas City, Batangas
(043) 723-0275 / (043) 723-0909 (Fax)

CALAMBA
Unit 6&7, New Parian Business Center cor. Lawa Road, National Highway, Parian, Calamba City, Laguna
(049) 502-7922 / (049) 502-8508 (Fax)

CALAPAN
Leona Yap Ong Bldg., JP 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, Albay
(052) 742-0691 / (052) 480-6054

LIPA
#7 Bank of Commerce Bldg., C.M. Recto Ave., Brgy. 9, Lipa City, Batangas
(043) 756-4214 / (043) 756-2588 (Fax)

LUCENA
Quezon Ave. cor. Lakandula St., Brgy. IX, Lucena City, Quezon
(042) 710-9691 / (042) 710-9692 (Fax)

NAGA
Romar-I Bldg., Elias Angeles St., Naga City, Camarines Sur
Manila Line:
(02) 250-8093 (Fax)
(054) 473-4080 / (054) 811-8931

PUERTO PRINCESA
WD Building, Rizal Ave., Brgy. Manggahan, Puerto Princesa City, Palawan
(048) 434-2172 / (048) 434-2170 (Fax)

SAN PEDRO
Pacita Commercial Complex, San Pedro, Laguna
808-2026 / 808-2002

STA. ROSA
Shop I-A, G/F Paseo 3, Paseo de Sta. Rosa, Sta. Rosa City, Laguna
(049) 541-1546 / (049) 541-1795 (Fax)

TANAUAN
Unit 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 cor. President Roxas Street, Brgy. Kasambagan, Mabolo, Cebu City, Cebu
(032) 316-9913 / (032) 342-7144 (Telefax)

CEBU - BANILAD
888 First Jomika Realty Bldg., Banilad, Mandaue City, Cebu
(032) 231-6704 / (032) 316-9921

CEBU - MAIN
B. Rodriguez cor. Osmeña Blvd., Cebu City, Cebu
(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, Cebuv
(032) 254-1825 / (032) 316-9925 / (032) 253-3999

CEBU TALISAY
G/F PCJ Building, National Highway, Bulacao, Talisay City, Cebu
(032) 231-6027 / (032) 462-2065

LAPU LAPU
Unit 3-5 AJS Bldg., Pusok, Lapu-Lapu City, 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 City Time Square Phase II, Mantawe Ave., Brgy. Tipolo, North Reclamation Area, Mandaue City, Cebu
(032) 268-4693 / (032) 316-9926 / (032) 564-3249 (Fax)

ORMOC
Real St., Ormoc City, Leyte
(053) 561-8523 / (053) 255-4366 (Fax)

TACLOBAN
Door 12-13 RUL Bldg., Brgy. 15, Justice Romualdez Street, Leyte Tacloban City 6500
(053) 832-2866 / 09173281721

TAGBILARAN
Ground Floor Karan's Building, B. Inting St., 2nd District, Brgy. Poblacion, Tagbilaran City, Bohol (Gulshan Centre)
(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
GR4 & GR5, 888 Chinatown
Premier Mall, Gatuslao St.,
Brgy. 8, Bacolod City
(034) 432-3287

BACOLOD - LACSON
Cor. 12th St. & Lacson Sts.,
Bacolod City
(034) 433-4238 /
(034) 433-1139 (Fax)

DUMAGUETE
CAP Bldg., Rizal Ave.,
Poblacion,
Dumaguete City
(035) 225-7668 /
(035) 422-6896 (Fax)

ESTANCIA
Clement St., Estancia, Iloilo
(033) 397-0222 /
(033) 397-0220 (Fax)

ILOILO - ATRIA
F&B 2 UPMB Bldg.,
Atria Park District,
Brgy. San Rafael
Manduriao, Iloilo City
(033) 501-6013 / (033) 517-0684

ILOILO - IZNART
TCT Bldg., Iznart St.,
Iloilo City
(033) 335-0710 / (033) 335-0712

ILOILO - J.M. BASA
G/F TTW Bldg.,
J.M. Basa & Mapa Sts.,
Iloilo City
(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 /
(036) 621-1760 (Fax)

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 Bldg., Vamenta Blvd.,
Carmen, Cagayan de Oro City,
Misamis Oriental
(088) 231-4167 (Fax)

CAGAYAN DE ORO - LAPASAN
Suites 6 & 7, Gateway Tower
1, Limketkai Center,
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,
Misamis Oriental
(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,
Brgy. San Antonio
Agdao District, Lanang,
Davao City
(082) 234-1042 /
(082) 226-2859 (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 Barnuevo Bldg.
M. Badelles St. Poblacion
Iligan City
(063) 224-6488

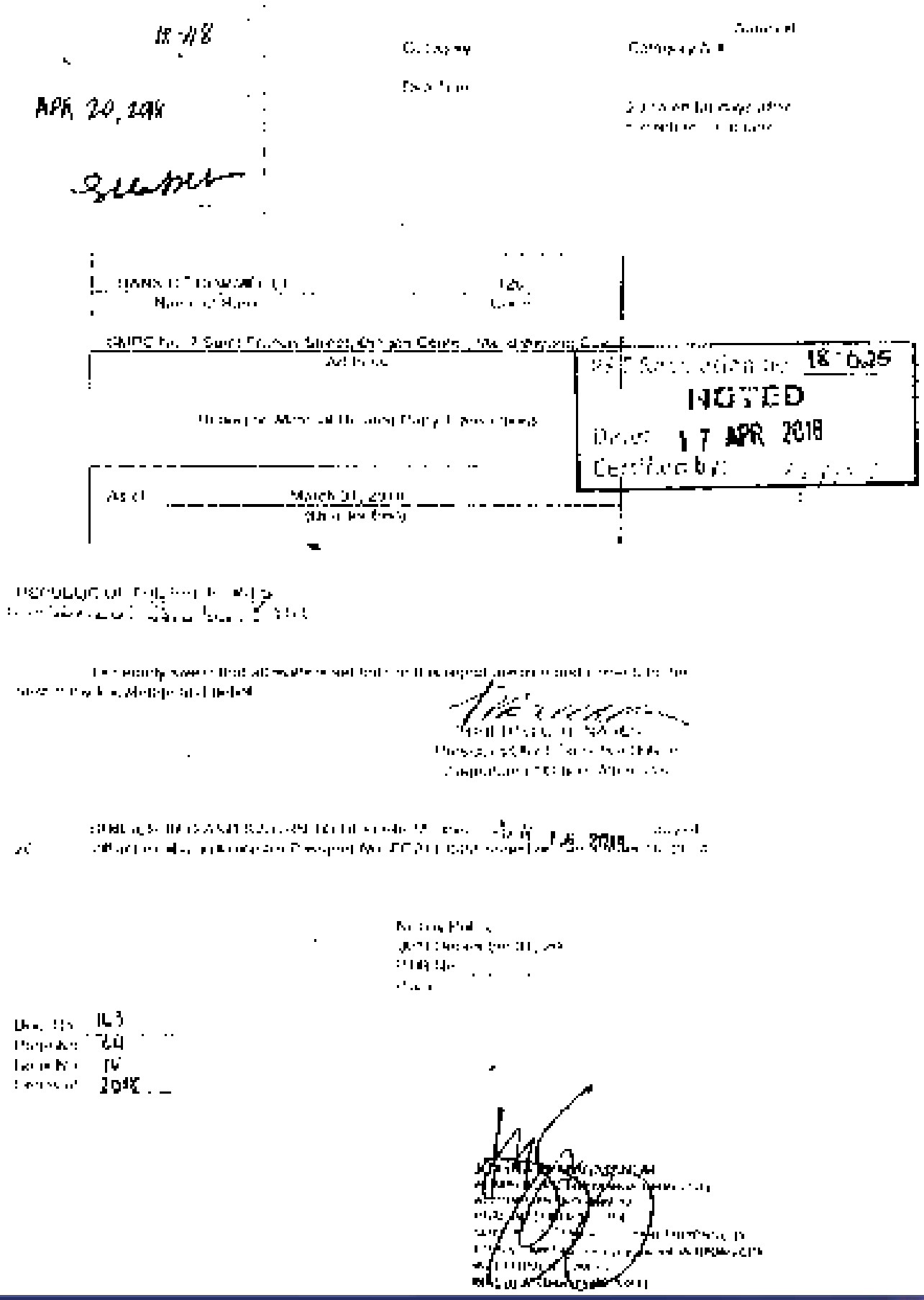
MARAMAG
G/F TRB Bldg., Sayre Highway,
North Poblacion Maramag,
Bukidnon
+63917 516 0606

PAGADIAN CITY
F.S. Pajares Avenue,
Gatas District, Pagadian City
Zamboanga del Sur
(062) 925-3399

TAGUM CITY
Unit 104-105, PLJ Bldg.,
Apokon Road,
Magugpo, Tagum City,
Davao del Norte
(084) 216-5364

ZAMBOANGA - VETERANS
Veterans Ave. cor. Camachile
St., Zamboanga City,
Zamboanga
(062) 991-2381 /
(062) 991-2980

ANNEX A - RELATED PARTY TRANSACTIONS



Category

Category A

Annex B

Declaration

2) Calculation of price per
litre or kilogram applicable

DANILO D. LAGUIDENCE
Name of Bidder

20
Date

OMNIC No. 7-9, 3rd Floor, Cityland Condominium 10, Tower 1, Ayala Avenue, Makati City
Address

Important Material Deviations or Party Exceptions

Annex

March 01, 2016
Quotation Date

REPUBLIC OF THE PHILIPPINES
MANDALUYONG CITY

I hereby certify that all conditions of the Invitation to Bid and Instructions to Bidders have been complied with in this bid.

ROSSINI O. CANLAPAN
President/Chief Executive Officer
(Signature of Officer in Charge)

SUBSCRIBED AND SWORN TO BEFORE ME this ____ day of ____, 2016 at Mandaluyong City, Philippines. Affiant exhibited to me his Passport No. EC4[illegible] issued on [illegible] 2014

Notary Public
Until December 31, 20
PTR No. _____
Roll No. _____

Doc. No. 45
Page No. 69
Book No. IV
Series of 2016

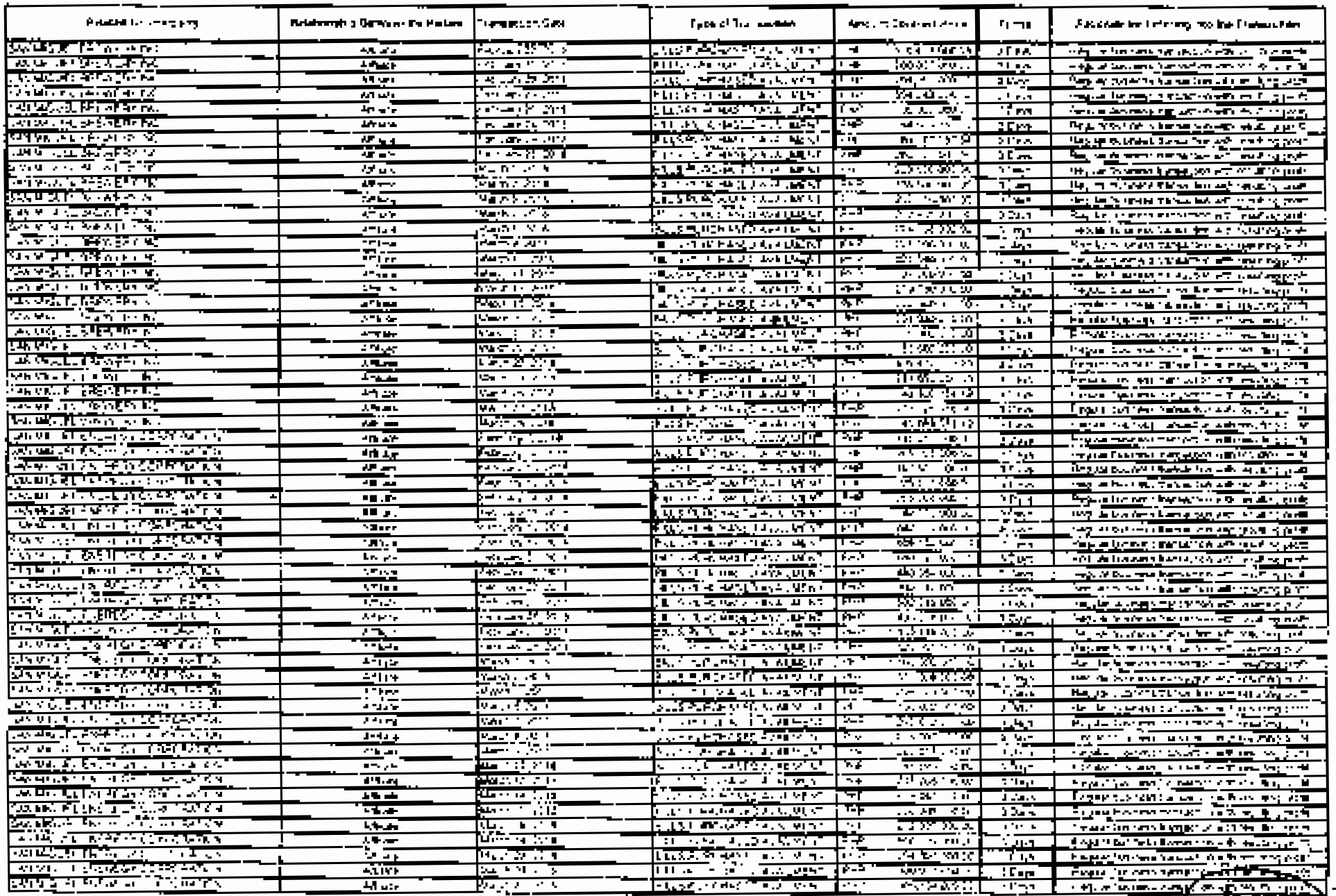
ROSSINI O. CANLAPAN
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
ROLL OF ATTORNEYS NO. 59611

Annexure - Related Party Transactions

Name of Related Party: [illegible]
Name of Bank: [illegible]

Nature of Relationship: [illegible]

Related Party Transaction	Relationship with the Related Party	Transaction Date	Type of Transaction	Amount (Contract Price)	Terms	Rationale for Entering into the Transaction
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]



[illegible]

[illegible]

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Related Party	Relationship	Transaction Date	Type of Transaction	Amount (Contract Price)	Terms	Rationale for Entering into the Transaction

Related Party	Relationship	Nature of Transaction	Amount	Remarks

Annex B

Category

Category A-1

Declaration

20 [illegible]
[illegible]

RPT Resolution No. 18-043
NOTED
Date: 26 JUL 2018
Certified by:

BANK OF COMMERCE — LKG Code

[illegible] Ortigas Center, [illegible]

Report on Material Related Party Transactions

As of June 30, 2018

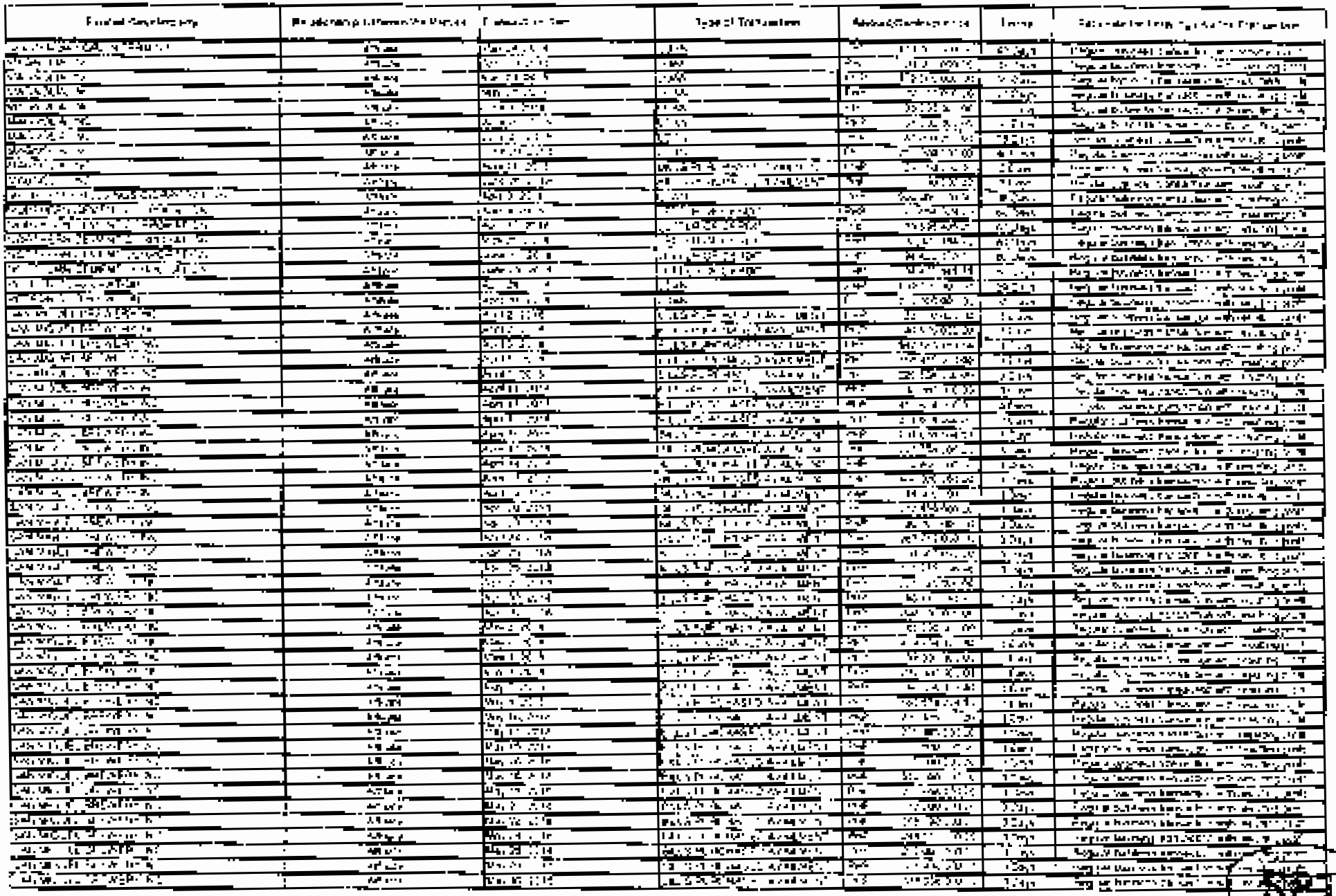
REPUBLIC OF THE PHILIPPINES)
MANDALUYONG CITY) S.S.

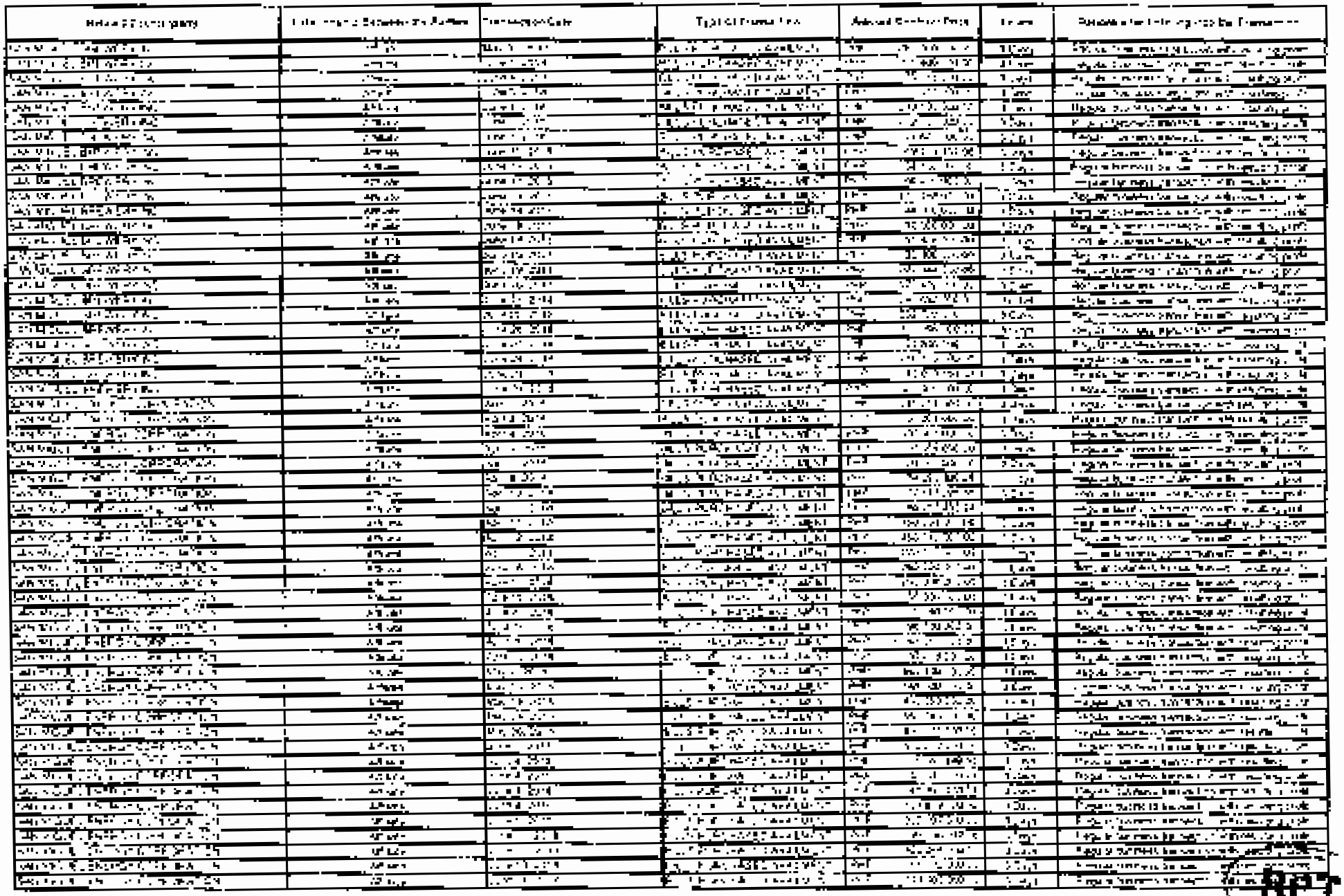
I [illegible] Mandaluyong City, [illegible] a report and correct, to the best of [illegible] and belief.

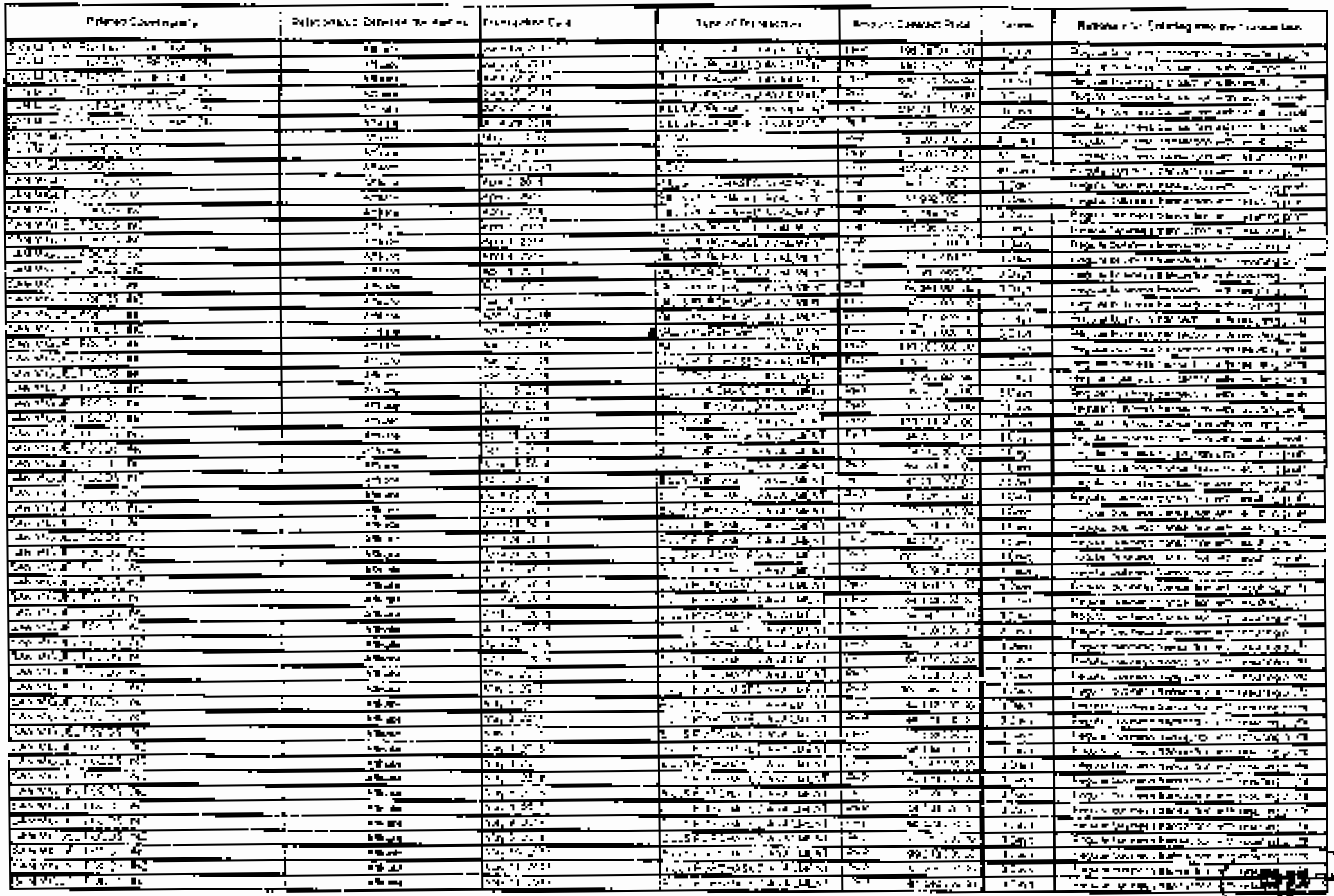
RICHELANGELO C. [illegible]
[illegible]

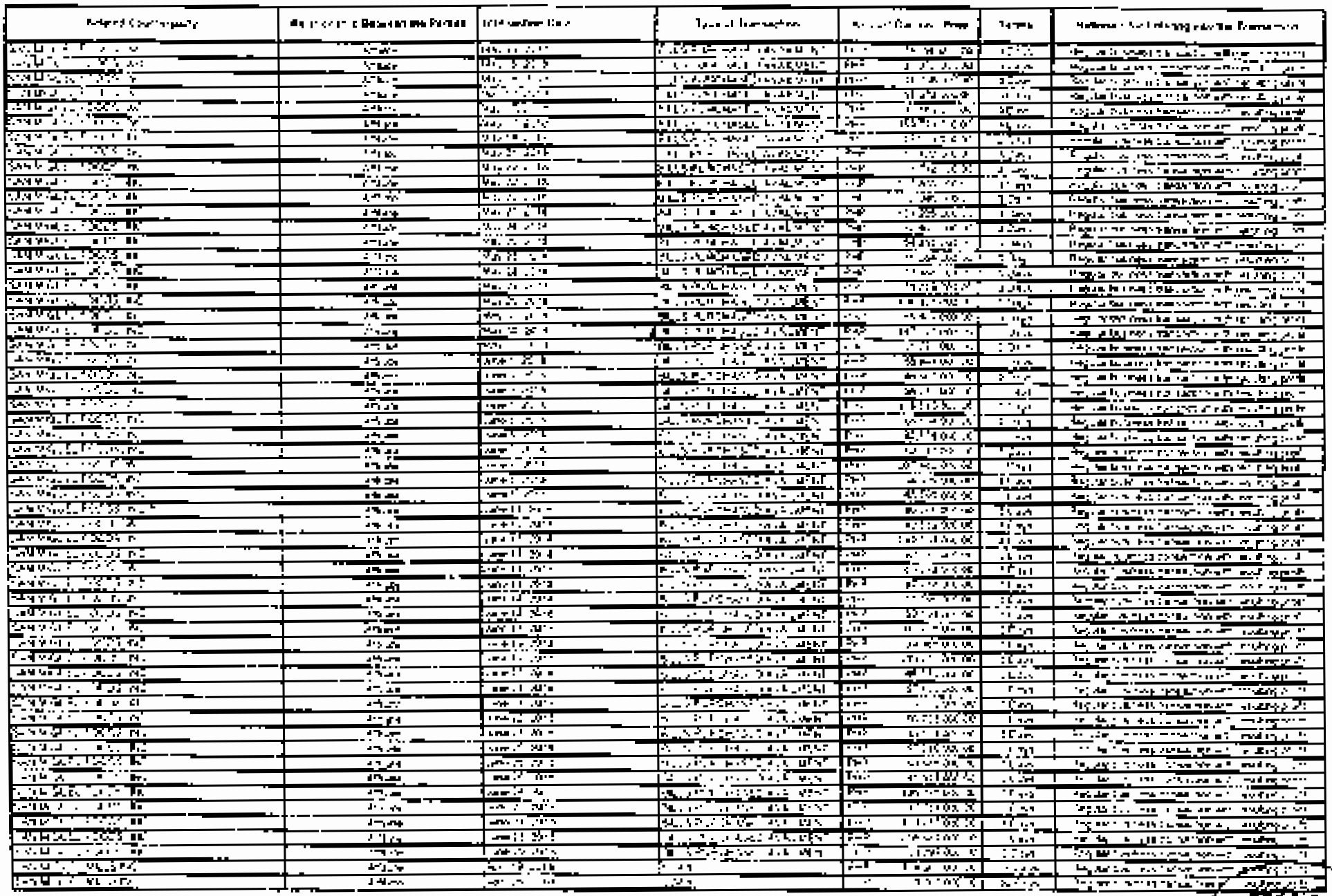
SUBSCRIBED AND SWORN TO before me this JUL 19 2018 day of 20__ [illegible] Passport No. [illegible]

Notary Public
Doc No. 92
Page No. 19
Book No. X
Series of 2018









Annex B

Doc. No. 18-042
Page No. 10
Book No. IV
Series of 2018

17 OCT 2018

Certified by:

Company

Description

25 cars (Mitsubishi Montero) for the whole fiscal quarter

BANK OF COMMERCE
Name of Bank

Code

SMPC Bldg., 7 Sgt. Esguerra Street, Brgy. Central, Quezon City, Metro Manila
Address

Number of Motor Vehicles Being Transferred

Serial No.

Make

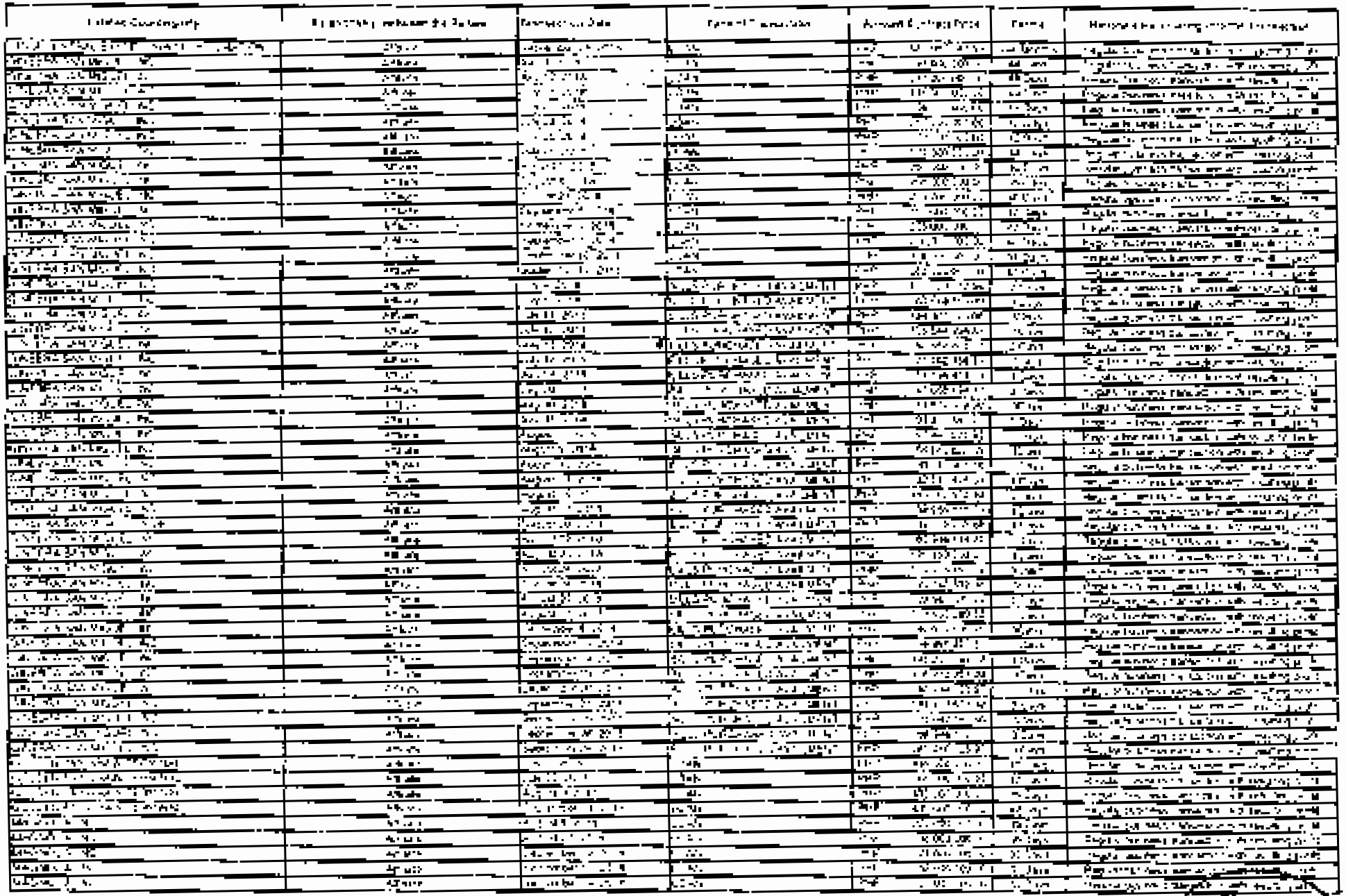
Engine No. / VIN
Chassis No.

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

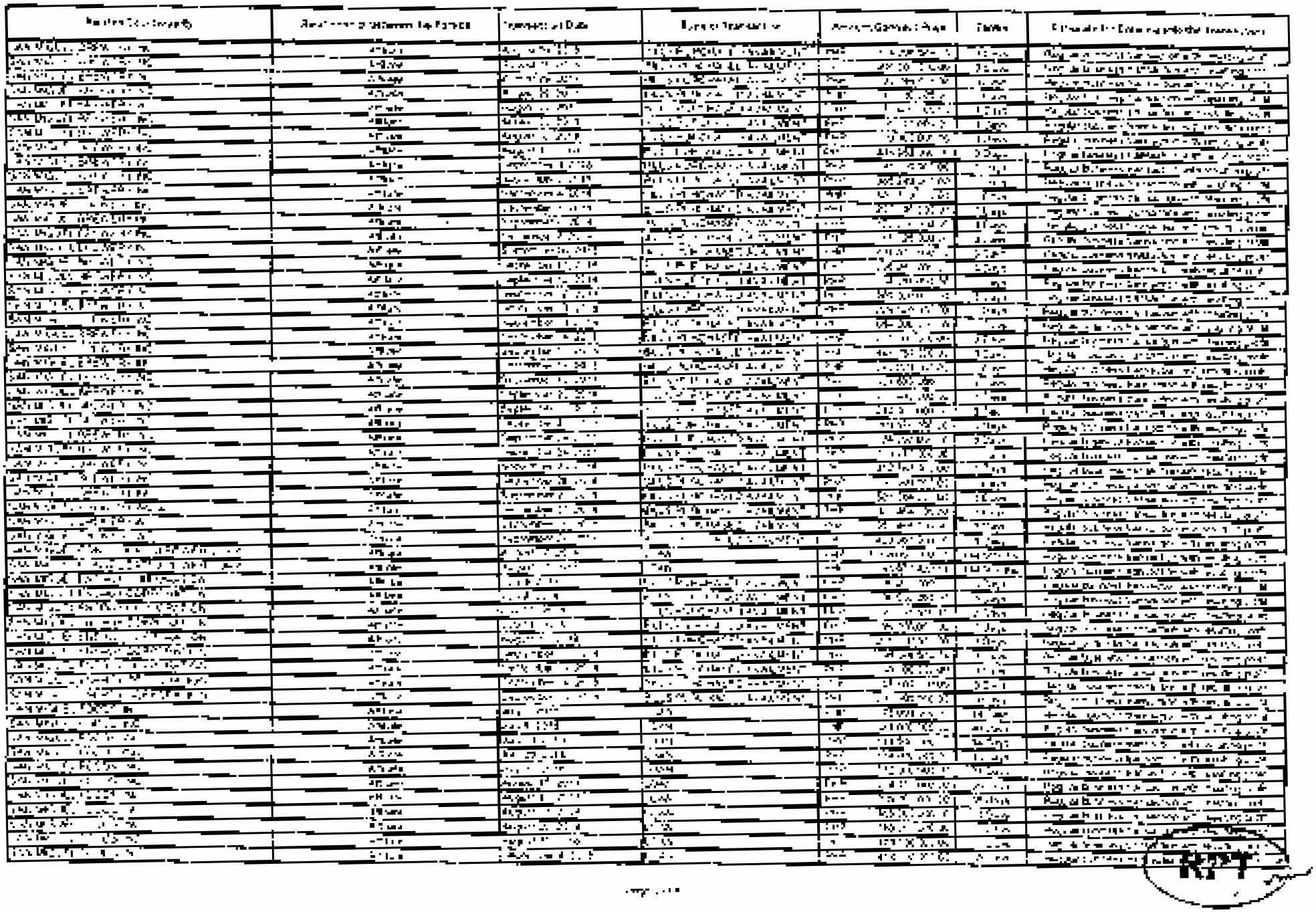
SUBSCRIBED AND SWORN TO BEFORE ME this OCT 16 2018 affiant exhibiting to me his/her Passport No. EC5830014 issued on Aug. 25, 2014

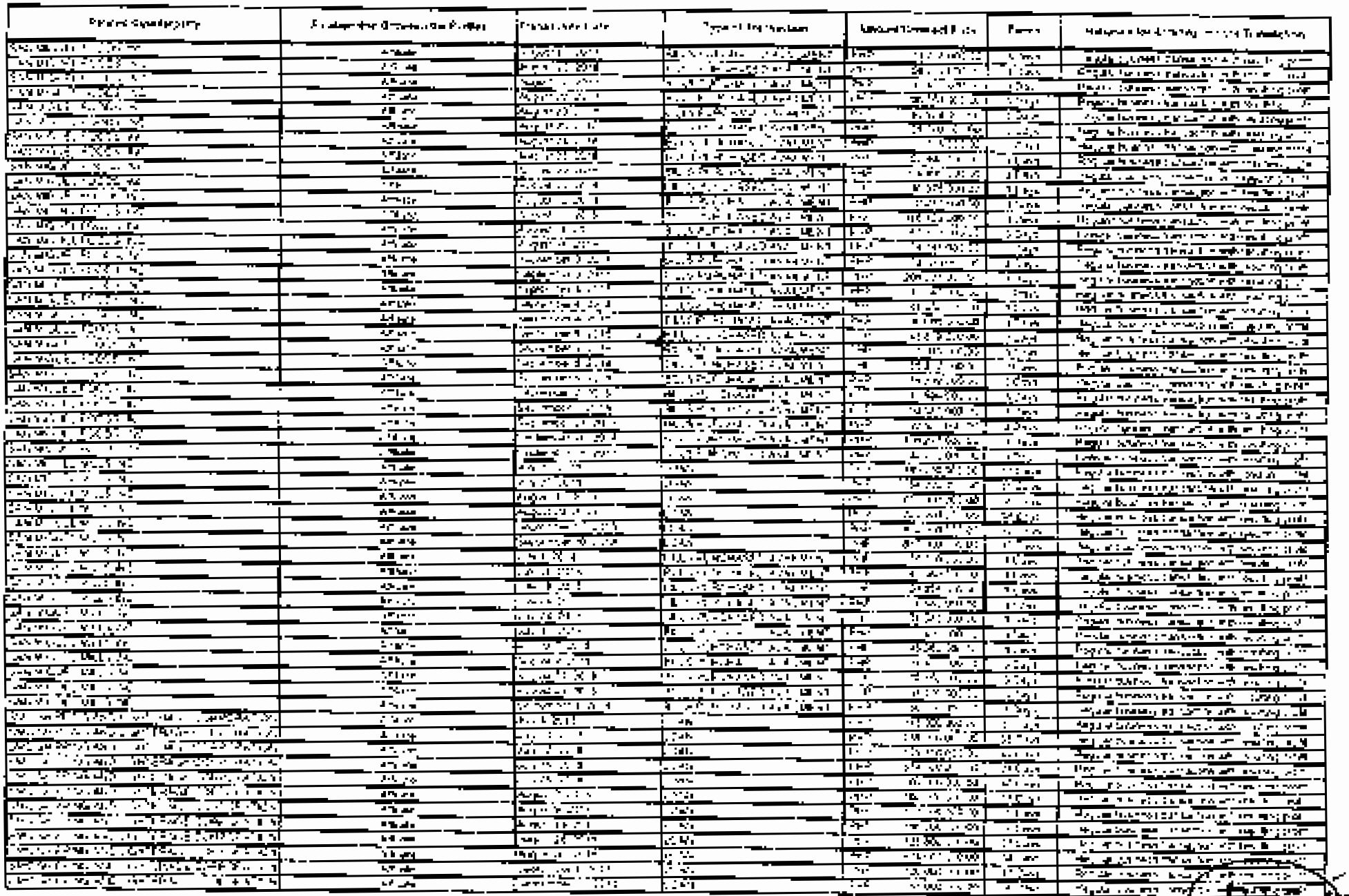
Doc. No. 1607
Page No. 64
Book No. IV
Series of 2018

ATTY. FRANCISCO A. ESTRELLADO
NOTARY PUBLIC FOR MANDALUYONG CITY
APPOINTMENT NO. 0M-0017
ROLL OF ATTORNEYS NO. 61214
PTR NO. 7171245 JAN 2, 2018 MANDALUYONG CITY
IBP NO. 1029 MEMBER, MANDALUYONG CITY
MCLE COMPLIANCE NO. VI-0012141
UNIT 1, 2/F MEZZANINE BLDG., 1345 MANDALUYONG CITY

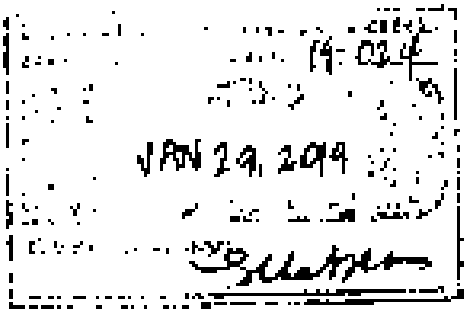


RPT



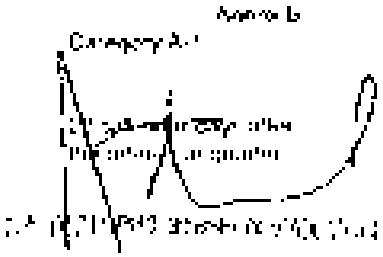


Transaction Property	Relationship between the Parties	Transaction Date	Type of Transaction	Amount Contract Price	Status	Reason(s) for Entering into the Transaction



Category

Donation



BANK OF COMMERCE
Name of Bank

Office

Address

Purpose for Making Payday Loan Transactions

Approved

Date

Signature of Authorized Officer

SUBSCRIBED AND SWORN TO BEFORE ME this JAN 18 2019 at Pasig City.

PURSUANT TO SECTION 2 OF REPUBLIC ACT NO. 9474, THE NOTARY PUBLIC SHALL ENTER THE FOLLOWING INFORMATION IN THE NOTARIAL REGISTER:

Doc. No. 101
Page No. 22
Book No. I
Series of 2019

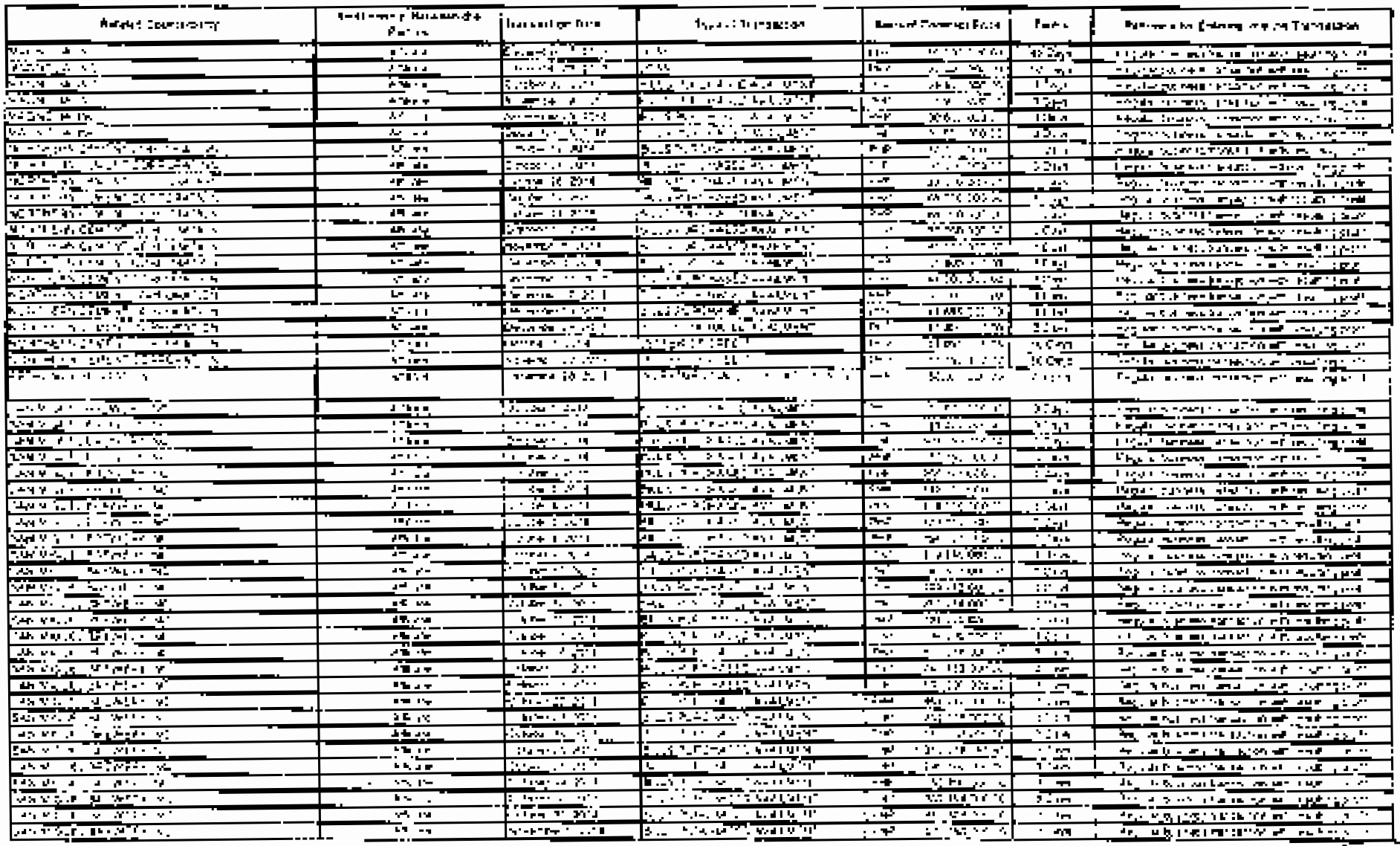
BPI Acknowledgment No. 19-006
NOTED
Date: 22 JAN 2019
Certified by:

[illegible]

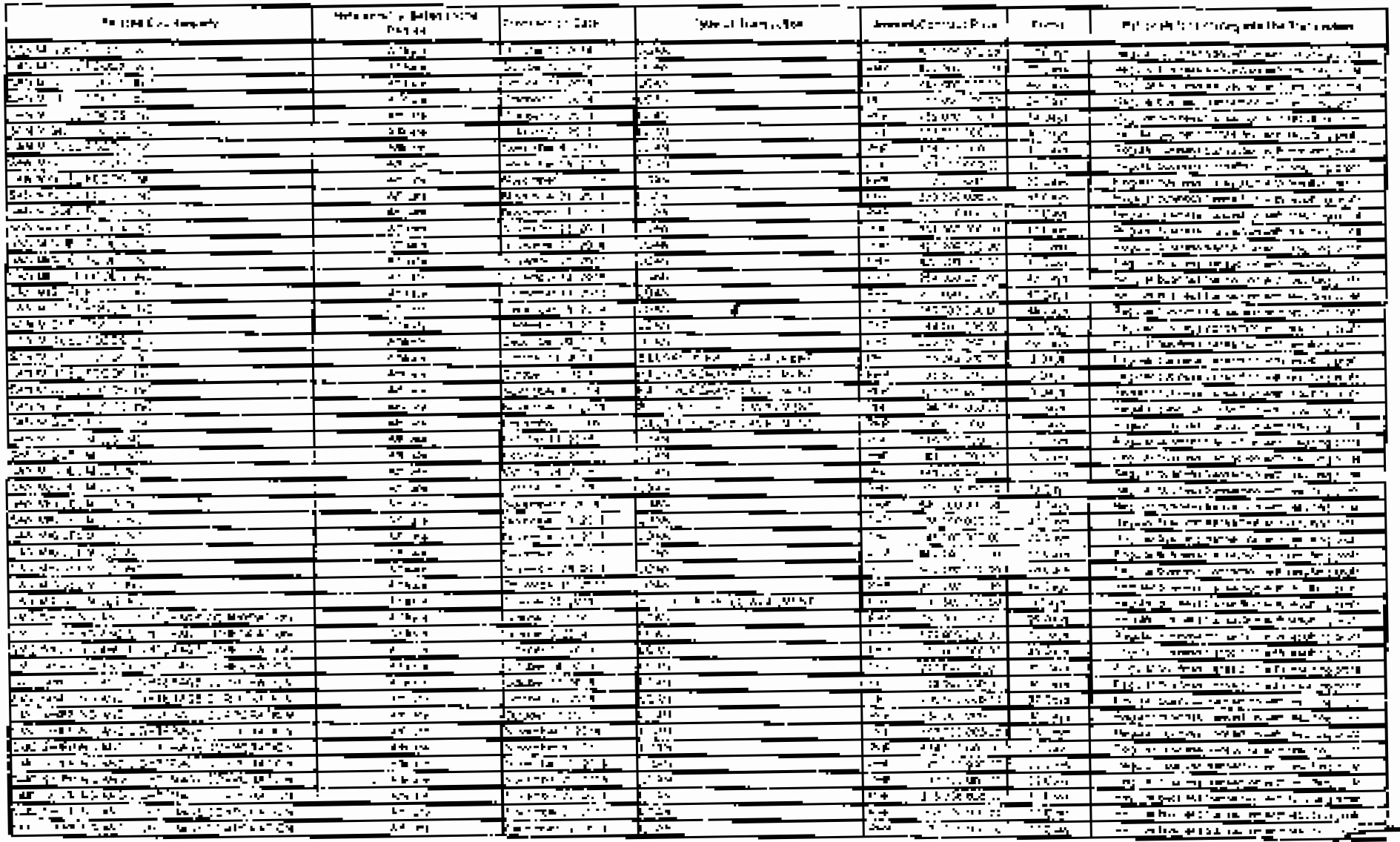
[illegible] Bank Code

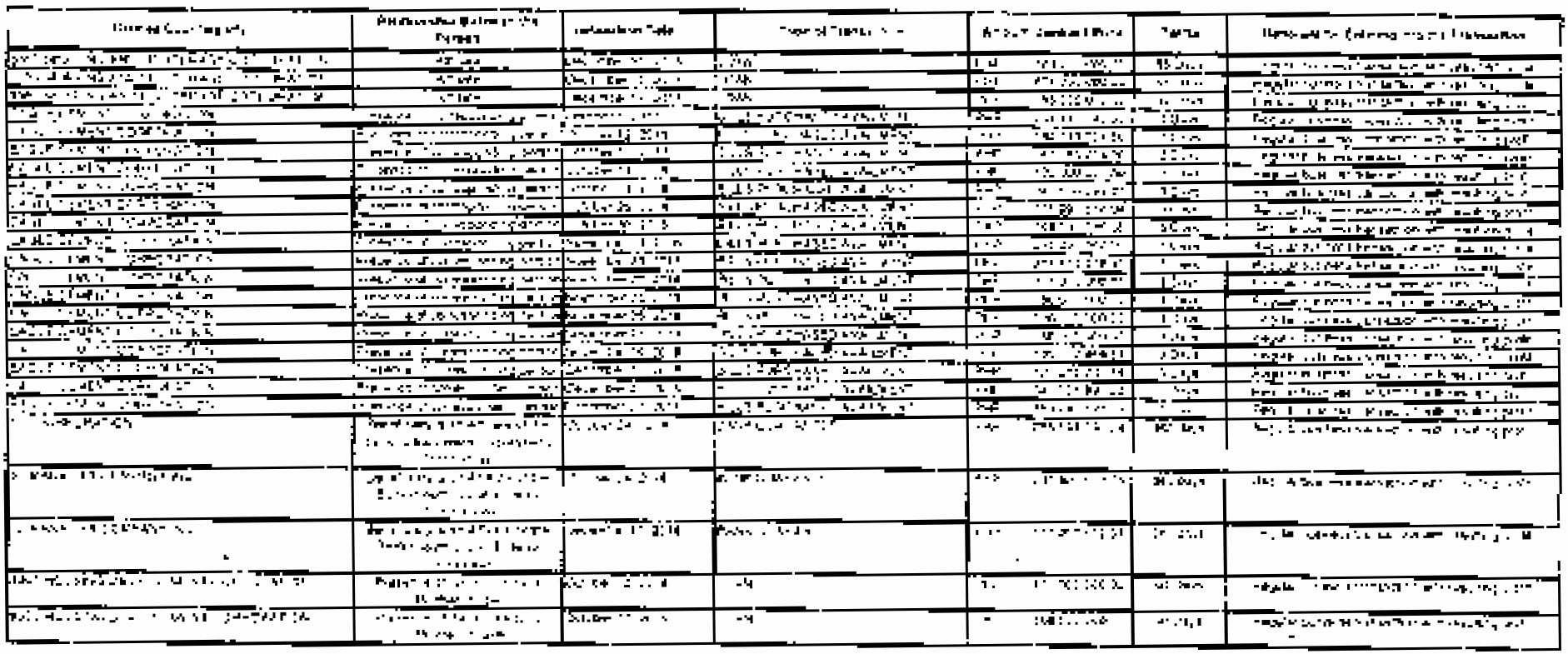
[illegible]
Date

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]



RPT





RPT

SAN MIGUEL PROPERTIES CENTRE
NO. 7 ST. FRANCIS ST., MANDALUYONG CITY

https://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

The corporate logo of San Miguel Corporation is a registered trademark of San Miguel Corporation, and is used under license.