Audited Financial Statements

Audited Financial Statements

Contents

Statement of Management's Responsibility for Financial Statements

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process. The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, have 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.

JESUS ROBERTO S. REYES
President

RHODORA M. LUGAY
Chief Financial Officer

RAFAEL S. ALGARRA JR.
Acting Treasurer

Signed this 22nd day of February, 2018

Independent Auditor's Report

The Stockholders and the Board of Directors
East West Banking Corporation

Report on the Consolidated and Parent Company Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

<u>Applicable to the audit of the Consolidated and Parent Company Financial Statements</u>

Assessment of recoverability of loans and receivables
The Group's and the Parent Company's loans and receivables are significant as they represent 69% and 67% of the total assets of the Group and of the Parent Company, respectively. The Group's and the Parent Company's loan portfolios, comprising of corporate and consumer loans, require different approaches in the assessment and calculation of loan impairment. Individually significant corporate loans are subjected to specific impairment assessment while the other loans, including consumer loans, are grouped based on credit risk characteristics and subjected to collective impairment assessment. We considered the Group's and the Parent Company's assessment of recoverability of loans and receivables as a key audit matter as significant judgment by management is required to identify impaired loans and to determine appropriate parameters and assumptions in the calculation of impairment loss. The various assumptions and factors considered by the Group and the Parent Company include the financial condition of the borrowers, estimated future cash flows from the loans, and estimated net selling prices of the collateral. The use of different assumptions could result in significantly different estimates of allowance for credit losses.

The disclosures relating to assessment of recoverability of loans and receivables are included in Notes 3, 4, 9 and 15 to the financial statements.

Audit Response
For loans and receivables subjected to specific impairment assessment, we obtained an understanding of the basis of identifying and measuring impairment. We selected samples of loans doubtful of recovery, checked the mathematical accuracy of the impairment calculation, and inquired of the latest developments about the borrowers. We tested the key inputs to the impairment calculation by assessing whether the forecasted cash flows are based on the borrowers' current financial condition, checking whether the discount rates used are based on the original effective interest rate or the last repriced rate, and when applicable, inspecting recent appraisal reports to determine the fair value of collateral held.

For the collective assessment of recoverability of loans and receivables, we tested the underlying loan information used in the impairment calculation by agreeing the details to the source information systems. We tested whether the assumptions and parameters in the impairment calculation, such as likelihood of default and recovery rate, are based on historical data. We also checked the mathematical accuracy of the impairment calculation.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 35 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of East West Banking Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-3 (Group A),
February 9, 2016, valid until February 8, 2019
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 6621219, January 9, 2018, Makati City

February 22, 2018

Statements of Financial Position

	Consolidated		Parent Company	
	As of December 31			
	2017	2016	2017	2016
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items	₱6,723,320	₱6,623,761	₱6,690,801	₱6,511,420
Due from Bangko Sentral ng Pilipinas (Note 16)	39,321,213	39,343,143	38,792,299	39,019,501
Due from Other Banks	9,362,992	6,970,645	9,341,309	6,940,924
Interbank Loans Receivable	12,387,633	7,502,748	12,387,633	7,502,748
Financial Assets at Fair Value Through Profit or Loss (Note 8)	7,313,183	5,267,750	7,313,183	5,267,750
Financial Assets at Fair Value Through Other Comprehensive Income (Note 8)	2	500	2	500
Investment Securities at Amortized Cost (Note 8)	6,472,222	11,129,509	6,472,222	11,129,509
Loans and Receivables (Notes 9, 15 and 27)	220,134,687	198,875,688	200,597,771	187,094,513
Investments in Subsidiaries (Note 10)	–	–	3,456,951	2,275,573
Investment in a Joint Venture (Note 10)	835,283	619,333	835,283	619,333
Property and Equipment (Note 11)	3,044,220	3,391,846	2,696,055	3,017,194
Investment Properties (Notes 12 and 15)	827,578	699,667	826,138	698,970
Deferred Tax Assets (Note 24)	1,957,094	1,972,465	1,864,271	1,896,899
Goodwill and Other Intangible Assets (Notes 7 and 13)	6,921,184	6,946,408	6,871,804	6,888,692
Other Assets (Notes 14 and 15)	2,342,830	2,474,082	2,278,321	2,414,624
TOTAL ASSETS	₱317,643,441	₱291,817,545	₱300,424,043	₱281,278,150
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 27)				
Demand	₱74,876,331	₱70,301,898	₱75,560,201	₱70,631,591
Savings	68,578,108	58,771,622	52,458,816	48,345,145
Time	97,280,600	103,112,716	97,280,600	103,112,716
Long-term negotiable certificates of deposits	17,991,295	8,035,283	17,991,295	8,035,283
	258,726,334	240,221,519	243,290,912	230,124,735
Bills and Acceptances Payable (Note 17)	4,159,695	2,194,595	4,159,695	2,194,595
Accrued Taxes, Interest and Other Expenses (Note 18)	2,529,338	1,866,929	2,340,870	1,750,222
Cashier's Checks and Demand Draft Payable	1,040,545	1,059,178	1,040,545	1,059,178
Subordinated Debt (Note 19)	6,211,138	4,969,460	4,972,572	4,969,460
Income Tax Payable	233,609	369,508	163,896	260,171
Other Liabilities (Note 20)	5,737,266	6,686,985	5,450,037	6,470,418
TOTAL LIABILITIES	278,637,925	257,368,174	261,418,527	246,828,779
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common Stock (Note 22)	14,999,836	14,999,836	14,999,836	14,999,836
Additional Paid in Capital (Note 22)	5,209,061	5,209,061	5,209,061	5,209,061
Surplus Reserves (Note 28)	52,143	47,467	52,143	47,467
Surplus (Note 28)	18,713,129	14,167,106	18,713,129	14,167,106
Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income	(4,048)	(4,060)	(4,048)	(4,060)
Remeasurement Gains (Losses) on Retirement Plans (Note 25)	32,133	(69,082)	32,133	(69,082)
Cumulative Translation Adjustment	3,262	99,043	3,262	99,043
TOTAL EQUITY	39,005,516	34,449,371	39,005,516	34,449,371
TOTAL LIABILITIES AND EQUITY	₱317,643,441	₱291,817,545	₱300,424,043	₱281,278,150

See accompanying Notes to Financial Statements.

Statements of Income

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands)					
INTEREST INCOME						
Loans and receivables (Notes 9 and 27)	₱21,087,498	₱17,377,357	₱13,920,185	₱19,270,469	₱16,082,377	₱13,083,188
Trading and investment securities (Note 8)	822,158	799,629	583,453	822,158	799,629	583,453
Due from other banks and interbank loans receivable	110,353	40,115	102,881	108,830	39,987	102,663
	22,020,009	18,217,101	14,606,519	20,201,457	16,921,993	13,769,304
INTEREST EXPENSE						
Deposit liabilities (Note 16)	3,160,777	2,458,922	1,843,639	2,833,700	2,278,609	1,741,568
Subordinated debt, bills payable and other borrowings (Notes 17 and 19)	408,602	358,941	423,204	349,034	358,941	423,204
	3,569,379	2,817,863	2,266,843	3,182,734	2,637,550	2,164,772
NET INTEREST INCOME	18,450,630	15,399,238	12,339,676	17,018,723	14,284,443	11,604,532
Service charges, fees and commissions (Note 23)	5,342,776	4,101,341	3,286,182	3,853,564	3,189,114	2,800,362
Gain on capital transaction (Note 10)	665,000	1,005,000	–	665,000	1,005,000	–
Foreign exchange gain	378,705	176,957	192,053	378,705	176,957	192,053
Gain on sale of investment securities at amortized cost (Note 8)	317,443	–	287,361	317,443	–	287,361
Trading and securities gain (loss) (Note 8)	63,973	734,499	(97,090)	63,973	734,499	(97,090)
Gain on sale of assets (Notes 11,12 and 14)	55,892	56,124	80,043	53,278	55,059	75,009
Trust income (Note 28)	46,759	18,602	17,007	46,759	18,602	17,007
Loss on asset foreclosure and dacion transactions	(236,353)	(29,454)	(67,119)	(236,353)	(29,454)	(67,119)
Miscellaneous (Note 23)	568,738	469,718	306,439	545,299	457,335	294,248
TOTAL OPERATING INCOME	25,653,563	21,932,025	16,344,552	22,706,391	19,891,555	15,106,363
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25 and 27)	4,608,745	4,009,859	3,294,039	4,198,748	3,706,512	3,111,453
Provision for impairment and credit losses (Notes 9, 12, 14 and 15)	4,464,267	5,692,223	3,899,002	4,332,113	5,659,819	3,868,583
Taxes and licenses	1,980,710	1,520,722	1,130,700	1,729,062	1,341,091	1,018,639
Depreciation and amortization (Notes 11, 12, and 14)	1,056,234	974,771	776,467	939,894	889,443	732,489
Rent (Note 26)	952,335	873,118	738,148	872,943	815,401	699,681
Amortization of intangible assets (Note 13)	339,874	175,251	180,905	325,566	163,038	168,701
Miscellaneous (Note 23)	5,044,457	4,187,414	3,633,311	4,770,978	3,983,020	3,479,771
TOTAL OPERATING EXPENSES	18,446,622	17,433,358	13,652,572	17,169,304	16,558,324	13,079,317
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND JOINT VENTURE	7,206,941	4,498,667	2,691,980	5,537,087	3,333,231	2,027,046
SHARE IN NET INCOME OF SUBSIDIARIES (Note 10)	–	–	–	1,181,247	775,405	392,575
SHARE IN NET LOSS OF A JOINT VENTURE (Note 10)	(449,050)	(356,954)	(28,713)	(449,050)	(356,954)	(28,713)
INCOME BEFORE INCOME TAX	6,757,891	4,141,713	2,663,267	6,269,284	3,751,682	2,390,908
PROVISION FOR INCOME TAX (Note 24)	1,707,192	733,957	659,332	1,218,585	343,926	386,973
NET INCOME	₱5,050,699	₱3,407,756	₱2,003,935	₱5,050,699	₱3,407,756	₱2,003,935
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	₱3.37	₱2.27	₱1.44			
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	₱3.37	₱2.27	₱1.44			

See accompanying Notes to Financial Statements.

Statements of Comprehensive Income

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	₱5,050,699	₱3,407,756	₱2,003,935	₱5,050,699	₱3,407,756	₱2,003,935
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX						
Items that will not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement gains (losses) of retirement liability (Note 25)	101,215	(23,063)	(14,625)	101,084	(24,378)	(14,490)
Change in net unrealized gains (losses) on financial assets at fair value through other comprehensive income	12	(1,618)	(8,164)	12	(1,618)	(8,164)
Share in changes in remeasurement gain (loss) of retirement liabilities of subsidiaries (Note 25)	-	-	-	131	1,315	(135)
Items that may be reclassified to profit or loss in subsequent periods:						
Cumulative translation adjustment	(95,781)	63,549	27,714	(95,781)	63,549	27,714
TOTAL OTHER COMPREHENSIVE INCOME	5,446	38,868	4,925	5,446	38,868	4,925
TOTAL COMPREHENSIVE INCOME, NET OF TAX	₱5,056,145	₱3,446,624	₱2,008,860	₱5,056,145	₱3,446,624	₱2,008,860

See accompanying Notes to Financial Statements.

Statements of Comprehensive Income

Consolidated
Year Ended December 31, 2017

	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2017	₱14,999,836	₱5,209,061	₱47,467	₱14,167,106	(₱4,060)	(₱69,082)	₱99,043	₱34,449,371
Net income	–	–	–	5,050,699	–	–	–	5,050,699
Other comprehensive income (loss)	–	–	–	–	12	101,215	(95,781)	5,446
Total comprehensive income	–	–	–	5,050,699	12	101,215	(95,781)	5,056,145
Transfer to surplus reserves (Note 28)	–	–	4,676	(4,676)	–	–	–	–
Dividends declaration (Note 22)	–	–	–	(500,000)	–	–	–	(500,000)
Balances at December 31, 2017	₱14,999,836	₱5,209,061	₱52,143	₱18,713,129	(₱4,048)	₱32,133	₱3,262	₱39,005,516

Consolidated
Year Ended December 31, 2016

	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2016	₱14,999,836	₱5,209,061	₱45,607	₱11,161,210	(₱2,442)	(₱46,019)	₱35,494	₱31,402,747
Net income	–	–	–	3,407,756	–	–	–	3,407,756
Other comprehensive income (loss)	–	–	–	–	(1,618)	(23,063)	63,549	38,868
Total comprehensive income	–	–	–	3,407,756	(1,618)	(23,063)	63,549	3,446,624
Transfer to surplus reserves (Note 28)	–	–	1,860	(1,860)	–	–	–	–
Dividends declaration (Note 22)	–	–	–	(400,000)	–	–	–	(400,000)
Balances at December 31, 2016	₱14,999,836	₱5,209,061	₱47,467	₱14,167,106	(₱4,060)	(₱69,082)	₱99,043	₱34,449,371

Consolidated
Year Ended December 31, 2015

	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2015	₱11,284,096	₱978,721	₱43,906	₱9,158,976	₱5,722	(₱31,394)	₱7,780	₱21,447,807
Net income	–	–	–	2,003,935	–	–	–	2,003,935
Other comprehensive income (loss)	–	–	–	–	(8,164)	(14,625)	27,714	4,925
Total comprehensive income	–	–	–	2,003,935	(8,164)	(14,625)	27,714	2,008,860
Transfer to surplus reserves (Note 28)	–	–	1,701	(1,701)	–	–	–	–
Issuance from stock rights offering (Note 22)	3,715,740	4,230,340	–	–	–	–	–	7,946,080
Balances at December 31, 2015	₱14,999,836	₱5,209,061	₱45,607	₱11,161,210	(₱2,442)	(₱46,019)	₱35,494	₱31,402,747

Parent Company
Year Ended December 31, 2017

	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
				(Amounts in Thousands)				
Balances at January 1, 2017	₱14,999,836	₱5,209,061	₱47,467	₱14,167,106	(₱4,060)	(₱69,082)	₱99,043	₱34,449,371
Net income	–	–	–	5,050,699	–	–	–	5,050,699
Other comprehensive income (loss)	–	–	–	–	12	101,215	(95,781)	5,446
Total comprehensive income	–	–	–	5,050,699	12	101,215	(95,781)	5,056,145
Transfer to surplus reserves (Note 28)	–	–	4,676	(4,676)	–	–	–	–
Dividends declaration (Note 22)	–	–	–	(500,000)	–	–	–	(500,000)
Balances at December 31, 2017	₱14,999,836	₱5,209,061	₱52,143	₱18,713,129	(₱4,048)	₱32,133	₱3,262	₱39,005,516

Statements of Comprehensive Income

Parent Company — Year Ended December 31, 2016	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total Equity
				(Amounts in Thousands)				
Balances at January 1, 2016	₱14,999,836	₱5,209,061	₱45,607	₱11,161,210	(₱2,442)	(₱46,019)	₱35,494	₱31,402,747
Net income	–	–	–	3,407,756	–	–	–	3,407,756
Other comprehensive income (loss)	–	–	–	–	(1,618)	(23,063)	63,549	38,868
Total comprehensive income	–	–	–	3,407,756	(1,618)	(23,063)	63,549	3,446,624
Transfer to surplus reserves (Note 28)	–	–	1,860	(1,860)	–	–	–	–
Dividends declaration (Note 22)	–	–	–	(400,000)	–	–	–	(400,000)
Balances at December 31, 2016	₱14,999,836	₱5,209,061	₱47,467	₱14,167,106	(₱4,060)	(₱69,082)	₱99,043	₱34,449,371

Parent Company — Year Ended December 31, 2015	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Losses on Retirement Plan	Cumulative Translation Adjustment	Total Equity
				(Amounts in Thousands)				
Balances at January 1, 2015	₱11,284,096	₱978,721	₱43,906	₱9,158,976	₱5,722	(₱31,394)	₱7,780	₱21,447,807
Net income	–	–	–	2,003,935	–	–	–	2,003,935
Other comprehensive income (loss)	–	–	–	–	(8,164)	(14,625)	27,714	4,925
Total comprehensive income	–	–	–	2,003,935	(8,164)	(14,625)	27,714	2,008,860
Transfer to surplus reserves (Note 28)	–	–	1,701	(1,701)	–	–	–	–
Issuance from stock rights offering	3,715,740	4,230,340	–	–	–	–	–	7,946,080
Balances at December 31, 2015	₱14,999,836	₱5,209,061	₱45,607	₱11,161,210	(₱2,442)	(₱46,019)	₱35,494	₱31,402,747

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱6,757,891	₱4,141,713	₱2,663,267	₱6,269,284	₱3,751,682	₱2,390,908
Adjustments for:						
Provision for impairment and credit losses (Note 15)	4,464,267	5,692,223	3,899,002	4,332,113	5,659,819	3,868,583
Depreciation and amortization (Notes 11, 12 and 14)	1,056,234	974,771	776,467	939,894	889,443	732,489
Share in net loss of a joint venture (Note 10)	449,050	356,954	28,713	449,050	356,954	28,713
Amortization of intangible assets (Note 13)	339,874	175,251	180,905	325,566	163,038	168,701
Loss on asset foreclosure and dacion transactions (Note 32)	236,353	29,454	67,119	236,353	29,454	67,119
Unrealized market valuation loss (gain) on financial assets at FVTPL	(40,628)	(72,944)	60,104	(40,628)	(72,944)	60,104
Gain on sale of assets (Notes 11, 12 and 14)	(55,892)	(56,124)	(80,043)	(53,278)	(55,059)	(75,009)
Gain on sale of investment securities at amortized cost (Note 8)	(317,443)	–	(287,361)	(317,443)	–	(287,361)
Gain on capital transaction (Note 10)	(665,000)	(1,005,000)	–	(665,000)	(1,005,000)	–
Share in net income of subsidiaries (Note 10)	–	–	–	(1,181,247)	(775,405)	(392,575)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at fair value through profit or loss	(2,004,805)	5,346,000	(418,220)	(2,004,805)	5,346,000	(418,220)
Loans and receivables (Note 32)	(28,265,622)	(45,216,868)	(38,612,689)	(20,376,984)	(39,432,293)	(37,575,990)
Other assets	1,850	4,509	673,752	5,018	9,788	683,026
Increase (decrease) in the amounts of:						
Deposit liabilities	18,504,815	48,753,345	36,456,517	13,166,177	43,735,003	35,895,838
Accrued taxes, interest and other expenses	662,409	605,527	(24,113)	590,648	579,205	(42,675)
Cashier's checks and demand draft payable	(18,633)	(158,563)	(39,241)	(18,633)	(158,563)	(39,241)
Other liabilities	(613,856)	568,794	194,802	(683,555)	524,047	81,168
Net cash generated from operations	490,864	20,139,042	5,538,981	972,530	19,545,169	5,145,578
Income taxes paid	(1,871,098)	(1,485,203)	(696,096)	(1,325,553)	(1,070,302)	(455,868)
Net cash provided by (used in) operating activities	(1,380,234)	18,653,839	4,842,885	(353,023)	18,474,867	4,689,710
CASH FLOWS FROM INVESTING ACTIVITIES						
Consideration received for the exclusive bancassurance access and investment transaction (Note 10)	–	1,400,000	–	–	1,400,000	–
Proceeds from sale of:						
Investment securities at amortized cost (Note 8)	11,756,331	–	4,575,653	11,756,331	–	4,575,653
Investment properties and other repossessed assets (Notes 12 and 14)	2,052,732	981,868	628,475	2,052,732	981,868	628,475
Property and equipment (Note 11)	35,253	6,112	7,425	32,316	3,115	2,177
Proceeds from maturity of investment securities at amortized cost	53,789	3,185,701	170,921	53,789	3,185,701	170,921

(Forward)

Statements of Cash Flows

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016	2015	2017	2016	2015
	(Amounts in Thousands)					
Acquisitions of:						
Investment securities at amortized cost	**(₱6,835,390)**	(₱9,697,312)	(₱282,233)	**(₱6,835,390)**	(₱9,697,312)	(₱282,233)
Property and equipment (Note 11)	**(368,361)**	(532,373)	(631,129)	**(278,185)**	(382,608)	(436,808)
Capitalized software (Note 13)	**(114,131)**	(250,348)	(202,550)	**(108,159)**	(242,305)	(202,991)
Branch licenses (Note 13)	**-**	-	(204)	**-**	-	(204)
Net cash transferred from a business combination (Note 7)	**(548,062)**	(379,782)	-	**(548,062)**	(401,160)	-
Incorporation of a subsidiary (Note 10)	**-**	-	-	**-**	(100,000)	(30,000)
Investment in a joint venture (Note 10)	**-**	-	(500,000)	**-**	-	(500,000)
Net cash provided by (used in) investing activities	**6,032,161**	(5,286,134)	3,766,358	**6,125,372**	(5,252,701)	3,924,990
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**243,061,250**	193,684,233	90,999,637	**243,061,250**	193,684,233	90,999,637
Payments of bills and acceptances payable	**(241,096,150)**	(194,563,161)	(93,243,766)	**(241,096,150)**	(194,563,161)	(93,243,766)
Payment of subordinated debt (Note 19)	**-**	(1,555,763)	-	**-**	(1,555,763)	-
Dividend paid (Note 22)	**(500,000)**	(400,000)	-	**(500,000)**	(400,000)	-
Issuance of common stock, net of direct cost related to issuance (Note 22)	**-**	-	7,946,080	**-**	-	7,946,080
Issuance of unsecured subordinated debt, net of issuance cost (Note 19)	**1,237,834**	-	-	**-**	-	-
Net cash provided by (used in) financing activities	**2,702,934**	(2,834,691)	5,701,951	**1,465,100**	(2,834,691)	5,701,951
NET INCREASE IN CASH AND CASH EQUIVALENTS	**7,354,861**	10,533,014	14,311,194	**7,237,449**	10,387,475	14,316,651
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**6,623,761**	5,899,131	5,993,499	**6,511,420**	5,829,104	5,912,309
Due from Bangko Sentral ng Pilipinas	**39,343,143**	30,908,680	23,128,678	**39,019,501**	30,725,169	22,970,798
Due from other banks	**6,970,645**	5,376,926	3,580,528	**6,940,924**	5,310,299	3,493,976
Interbank loans receivable	**7,502,748**	7,722,546	2,893,384	**7,502,748**	7,722,546	2,893,384
	60,440,297	49,907,283	35,596,089	**59,974,593**	49,587,118	35,270,467
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**6,723,320**	6,623,761	5,899,131	**6,690,801**	6,511,420	5,829,104
Due from Bangko Sentral ng Pilipinas	**39,321,213**	39,343,143	30,908,680	**38,792,299**	39,019,501	30,725,169
Due from other banks	**9,362,992**	6,970,645	5,376,926	**9,341,309**	6,940,924	5,310,299
Interbank loans receivable	**12,387,633**	7,502,748	7,722,546	**12,387,633**	7,502,748	7,722,546
	₱67,795,158	₱60,440,297	₱49,907,283	**₱67,212,042**	₱59,974,593	₱49,587,118
NET OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest received	**₱21,972,257**	₱17,763,608	₱14,322,709	**₱20,243,005**	₱16,538,668	₱13,506,468
Interest paid	**3,526,487**	2,822,450	2,217,095	**3,155,575**	2,647,577	2,115,293
Dividend received	**4,555**	6,390	11,511	**4,555**	6,390	11,511

See accompanying Notes to Financial Statements.

Notes to Financial Statements

1. Corporate Information

East West Banking Corporation (EW or the Bank or the Parent Company) is a domestic universal bank which was registered with the SEC on March 22, 1994. The Bank was granted authority by the Bangko Sentral ng Pilipinas (BSP) to operate as a commercial bank and operate an expanded foreign currency deposit unit in 1994. Subsequently in 2012, the Parent Company was authorized by the BSP to operate as a universal bank. The Parent Company's common shares were listed and commenced trading in the Philippine Stock Exchange (PSE) on May 7, 2012 (see Note 22).

As of December 31, 2017 and 2016, the Parent Company is effectively 77.19% owned by Filinvest Development Corporation (FDC). The Parent Company's ultimate parent company is A.L. Gotianun, Inc. The Parent Company's head office is located at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

Through its network of 446 and 445 branches as of December 31, 2017 and 2016, respectively, the Bank and its subsidiaries (the Group) provide a wide range of financial services to consumer and corporate clients, which includes deposit-taking, loan and trade finance, treasury, trust services, credit cards, cash management, custodial services, insurance services and leasing and finance.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivative financial instruments that have been measured at fair value. The financial statements are presented in Philippine peso and all values are rounded to the nearest thousand except when otherwise indicated.

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

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of all subsidiaries and the joint venture is the Philippine peso.

Statement of Compliance

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

Presentation of Financial Statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 21.

Basis of Consolidation

The Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continue to be consolidated until the date when control ceases. Control is achieved when the Parent Company is exposed, or has rights, to variable return from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Parent Company has power over the entity when it has existing rights that give it the current ability to direct relevant activities (i.e., activities that significantly affect the entity's returns). Consolidation of subsidiaries ceases when control is transferred out of the Parent Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly-owned subsidiaries of the Parent Company as of December 31, 2017 and 2016:

		Effective Percentage of Ownership	
	Principal Activities	2017	2016
East West Rural Bank, Inc. (EWRB)	Consumer banking	100.00	100.00
East West Insurance Brokerage, Inc. (EWIB)	Non-life insurance brokerage	100.00	100.00
Quest Marketing and Integrated Services, Inc. (QMIS)	Sales and marketing	100.00	100.00
Assurance Solutions Insurance Agency (ASIA)*	General insurance and marketing	100.00	100.00
East West Leasing and Finance Corporation (EWLFC)*	Finance and leasing	100.00	100.00

** Non-operational as of December 31, 2017*

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in the consolidated financial statements.

Changes in Accounting Policies and Disclosures

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

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has provided the required information in Note 32 to the financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the years ended December 31, 2016 and 2015.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, and interbank loans and receivable (IBLR) with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Group considers as cash equivalents wherein withdrawals can be made to meet the Group's cash requirements as allowed by the BSP.

Foreign Currency Transactions and Translation

Transactions and balances

For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rate at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the period in which the rates change.

Non-monetary items that are measured in terms of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

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

Fair Value Measurement

The Group measures certain financial instruments such as financial assets at FVTPL, financial assets at FVTOCI and derivative financial instruments at fair value at each statement of financial position date. Also, fair values of financial instruments carried at amortized cost and investment properties carried at cost are measured for disclosure purposes.

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 the Group.

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

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

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

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

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

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

External appraisers are involved for valuation of significant non-financial assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 5).

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
The Group recognizes financial instruments when, and only when, the Group becomes a party to the contractual terms of the financial instruments.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date, i.e., the date that an asset is delivered to or by the Group. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group. Securities transactions and related commission income and expense are recorded also on a settlement date basis. Deposits, amounts due to banks and customers, and loans and receivables are recognized when cash is received by the Group or advanced to the borrowers.

Derivatives are recognized on trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income.
In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

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

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

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

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any allowance for credit losses, with the calculated interest recognized as Interest income in the statement of income. The Group classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Investment securities at amortized cost' and 'Loans and receivables as financial assets at amortized cost'.

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

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

A financial asset is held for trading if:

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

Financial assets at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in 'Net unrealized gain (loss) on financial assets at FVTOCI' in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in 'Net unrealized gain (loss) on financial assets at FVTOCI' is not reclassified to profit or loss, but is reclassified directly to 'Surplus'.

The Group has designated certain equity instruments that are not held for trading as at FVTOCI on initial application of PFRS 9 (see Note 8).

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

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

Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition.

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

Financial assets at FVTPL are carried at fair value, and fair value gains and losses on these instruments are recognized as 'Trading and securities gain' in the statement of income. Interest earned on these investments is reported in the statement of income under 'Interest income' while dividend income is reported in the statement of income under 'Miscellaneous income' when the right of payment has been established. Quoted market prices, when available, are used to determine the fair value of these financial instruments. If quoted market prices are not available, their fair values are estimated based on inputs provided by the BSP, Bureau of Treasury and investment bankers. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

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

Notes to Financial Statements

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

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows meet the amortized cost criteria.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI at initial recognition is not permitted.

A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or is designated as at FVTPL.

A financial liability is held for trading if:
- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Management may designate a financial liability at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities 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.

As of date, the Group's financial liabilities at FVTPL include derivative liabilities.

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated at FVTPL, are classified as financial liabilities at amortized cost under Deposit liabilities, Bills and acceptances payable, Subordinated debt or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Financial liabilities are initially measured at cost plus transaction costs. Subsequently, these financial instruments are measured at amortized cost using the effective interest method, except for:

a. financial liabilities at fair value through profit or loss which are measured at fair value; and
b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

Amortized cost is calculated by taking into account any discount or premium on the issuance and fees that are an integral part of the effective interest rate (EIR).

Impairment of Financial Assets
The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or 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 one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets classified and measured at amortized cost such as 'Loans and receivables', 'Due from other banks' and 'Investment securities at amortized cost', the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Financial 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. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to 'Provision for impairment and credit losses' in the statement of income. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, 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 a write-off is later recovered, a recovery income in recognized and is recorded as 'Miscellaneous income' in the statement of income.

If the Group 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 assessed 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as internal credit risk rating, past-due status andcollateral type. 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 similar credit risk characteristics. 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 on 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 property prices, payment status, or other factors that are indicative of incurred losses of the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Restructured loans
Loan restructuring 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 that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

Derecognition of Financial Assets and Financial Liabilities
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 or transferred;
- the Group 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 Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Group 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 the asset nor transferred control over the asset, the asset is recognized to the extent of the Group'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 Group could be required to repay.

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 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, and the difference in the respective carrying amounts is recognized in the statement of income.

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

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

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, leasehold improvements and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives (EUL) of the property and equipment.

	Years
Buildings	30-40
Furniture, fixtures and equipment	3-5

The cost of the leasehold improvements is amortized over the shorter of the covering lease term or the EUL of the improvements of 10 years.

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

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an 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 recorded as 'Investment properties' upon: (a) entry of judgment in case of judicial foreclosure; (b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value.

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

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed 10 years for both buildings and condominium units.

Foreclosed properties of land or building are classified under Investment properties from foreclosure date. Other foreclosed properties which do not qualify as land or building are classified as other repossessed assets included in Other assets in the statement of financial position.

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

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

When the Group acquires a business, it assesses the financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

<u>Investments in Subsidiaries</u>
Investments in subsidiaries in the Parent Company's separate financial statements are accounted for under the equity method.

Under the equity method, an investment in subsidiary is carried in the statement of financial position at cost plus post-acquisition changes in the Parent Company's share of the net assets of the subsidiary. Post-acquisition changes in the share of net assets of the subsidiaries include the share in the: (a) income or losses; and (b) remeasurement of retirement plans. Dividends received are treated as a reduction in the carrying amount of the investments. The statement of income reflects the share of the results of operations of the subsidiary. Where there has been a change recognized directly in the equity of the subsidiary, the Parent Company recognizes its share of any changes and thus, when applicable, discloses in the statement of changes in equity. If the Parent Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Parent Company discontinues recognizing its share in further losses.

<u>Investment in a Joint Venture</u>
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in a joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture since the acquisition date. The statement of income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of the investee is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of income and represents profit or loss after tax.

On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in a joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in a joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share in net income (loss) of joint venture' in the statement of income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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

<u>Intangible Assets</u>
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets, excluding goodwill and branch licenses, are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic 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 at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is 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 statement of income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Notes to Financial Statements

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Intangible assets include goodwill, branch licenses, customer relationship, core deposits and capitalized software (see Note 13).

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Branch licenses
Branch licenses are determined to have indefinite useful lives. These are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life is reviewed annually to determine whether indefinite useful life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Customer relationship and core deposits
Customer relationship and core deposits are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, customer relationship and core deposits are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the credit cards business is amortized on a straight-line basis over its useful life of 40 years while the customer relationship related to the auto loans business and core deposits are amortized on a straight-line basis over its useful life of 13 and 10 years, respectively (see Note 13).

Capitalized software
Capitalized software acquired separately is measured at cost on initial recognition. Following initial recognition, capitalized software is carried at cost less accumulated amortization and any accumulated impairment losses. The capitalized software is amortized on a straight-line basis over its estimated useful life of 5-10 years.

<u>Card Acquisition Costs</u>
Card acquisition costs represent capitalized commissions paid to third-party brokers for successfully originated credit card accounts, which are amortized over two years, the average relationship life with customers.

<u>Impairment of Nonfinancial Assets</u>
An assessment is made at each statement of financial position date whether there is any indication of impairment of property and equipment, investment properties, other repossessed assets 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. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

The following criteria are also applied in assessing impairment of specific assets:

Property and equipment, investment properties and other repossessed assets
The carrying values of the property and equipment and investment properties are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or CGUs are written down to their recoverable amounts.
Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Branch licenses
Branch licenses are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate.

Other intangible assets
Other intangible assets such as customer relationship, core deposits and capitalized software are assessed for impairment whenever there is an indication that they may be impaired.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial assets at FVTPL, interest income is recorded at the EIR, which 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 contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in the carrying amount is recorded as interest income. 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.

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

Notes to Financial Statements

Fee and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following categories:

a) *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 fees include commission income, fiduciary fees and credit related fees.

b) *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

c) *Bancassurance fees*
Non-refundable fees are recognized on a straight-line basis over the term of the distribution agreement. Fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and securities gain
Trading and securities gain represents results arising from trading activities including all gains and losses from changes in fair value of financial assets and financial liabilities held for trading.

Commissions earned on credit cards
Commissions earned on credit cards are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus 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 statement of financial position.

The unearned discount is taken to income over the installment terms and is computed using the effective interest method.

Customer loyalty programmes
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 between the award credits and the other components of the sale. Income generated from customer loyalty programmes is recognized as part of 'Service charges, fees and commissions' in the statement of income.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and when the collectibility of the sales price is reasonably assured.

Expense Recognition
Expenses are recognized in the statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statement of income:
- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

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

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.

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

Retirement Cost
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets (excluding net interest on defined benefit asset) and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements are recognized in other comprehensive income account. Remeasurement gains (losses) on retirement plan are not reclassified to profit or loss in subsequent periods.

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

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

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes the related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlement to annual leave is recognized as a liability when the employees render the services that increase their annual leave entitlement. The cost of accumulating annual leave are measured as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

<u>Provisions and Contingencies</u>
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where, appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as Interest expense in the statement of income.

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

<u>Income Taxes</u>
Current taxes
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

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

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

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

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

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

<u>Equity</u>
Capital stock is measured at par value for all shares issued. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to Additional paid in capital account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to 'Additional paid in capital' account. If additional paid-in capital is not sufficient, the excess is charged against 'Surplus'.

Surplus represents accumulated earnings of the Group less dividends declared.

<u>Dividends on Common Shares</u>
Dividends on common shares are recognized as a liability and deducted from equity when declared and approved by the Board of Directors (the Board or BOD) of the Parent Company and approved by the BSP. Dividends for the year that are declared and approved after the statement of financial position date, if any, are dealt with as an event after the financial reporting date and disclosed accordingly.

<u>Earnings Per Share (EPS)</u>
Basic EPS is determined by dividing the net income for the year attributable to common shares by the weighted average number of common shares outstanding during the year while diluted EPS is computed by dividing net income for the year attributable to common shares by the weighted average number of outstanding and dilutive potential common shares. Basic and diluted EPS are given retroactive adjustments for any stock dividends declared and stock rights exercised in the current year, if any. The Group does not have dilutive potential common shares.

<u>Segment Reporting</u>
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The Group's operations are organized according to the nature of products and services provided. Financial information on business segments is presented in Note 6.

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

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

Future Changes in Accounting Policies
Standards issued but not yet effective up to the date of the Group's financial statements are listed below. The listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Group has assessed that the adoption of these amendments will not have any impact on the 2018 consolidated financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts. However, the amendments are applicable to EW Ageas Life, the Parent Company's joint venture with Ageas since its activities are predominantly connected with insurance. EW Ageas Life intends to apply the temporary exemption from PFRS 9 and will therefore continue to apply PAS 39, *Financial Instruments: Recognition and Measurement* to its financial assets and liabilities until it adopts the new standard on insurance contracts.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

  The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Parent Company has already adopted the 2010 version of PFRS 9 in 2011. The Group will adopt the final version of the standard on the mandatory effective date and will not restate comparative information. In 2017, the Group has performed an assessment of the impact of all three phases of PFRS 9 to its population of financial instruments. This assessment is based on currently available information and may be subject to changes arising from further reasonable information becoming available to the Group when it adopts the final version of PFRS 9 in 2018.

  (a) Classification and measurement

  The final version of PFRS 9 introduced a new FVTOCI classification for debt financial assets where the objective of the business model is achieved by both collecting contractual cash flows and selling financial assets. In line with the Parent Company's change in business models (see Note 3), certain debt securities currently held under the "hold-to collect" (HTC) business model are expected to be reclassified to FVTOCI with recycling to profit or loss while the rest of the securities currently held as HTC will remain to be classified as HTC. Debt securities currently held as at FVTPL will remain to be classified as at FVTPL. Loans and receivables are expected to remain to be managed under an HTC business model and thus qualify for amortized cost measurement.

  As the classification for equity securities remain to be irrevocable, quoted and unquoted equity shares currently held as at FVTPL and FVOCI, respectively, will remain to be classified as such upon adoption of the final version of PFRS 9.

  (b) Impairment

  PFRS 9 requires the Group to record expected credit losses (ECL) on all loans and other debt financial assets not classified as at FVTPL together with loan commitments and financial guarantee contracts. The adoption of the final version of PFRS 9 is expected to result in significant changes to the internal credit loss methodology of the Group. Under the expected loss model of PFRS 9, impairment is more forward looking as credit losses are recognized even without the actual occurrence of a credit event or an impairment trigger.

PFRS 9 introduces a three-stage approach for impairment, based on whether there has been a significant increase in the credit risk of a financial asset. Stage 1 applies to credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition, and provisions are estimated based on default events within the next 12 months from the measurement date (12-month ECL). Stage 2 applies to credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition, and the loss allowance is based on default events within the remaining expected life of the exposure from the measurement date (lifetime ECL).
Stage 3 applies to credit exposures with objective evidence of impairment, and thus, are considered as "non-performing". The measurement of ECL for financial assets under Stage 3 is also based on lifetime ECL.

The ECL is calculated as the product of the following:
1. Probability of default (PD). For 12-month ECL, the PD is the likelihood of the borrower defaulting within the next 12 months from the measurement date, while the lifetime PD projects the potential of the borrower to default within the remaining expected life of the asset.
2. Loss given default (LGD). This is calculated by deducting from total loss the net present value of all cash flows from the repayment of the borrower and/or the proceeds from sale of collateral. The collateral is initially segmented according to type (e.g. vehicle, real estate, etc.) and then further differentiated according to the salability of the asset (e.g. residential, commercial/industrial, agricultural real estate properties, etc.).
3. Exposure at default (EAD). This is the outstanding balance plus, for the revolving credit exposures, the incremental increase in receivables that may occur in the immediate period leading up to the default.

The resulting ECL estimate, which is still based on historical experience and current conditions, will be augmented by the application of a forward-looking factor (which considers a range of macroeconomic variables) that reflects the effects of the economic outlook for the near- and long-term to the measured credit loss.

(c) Hedge accounting

The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Group assessed that the adoption of these amendments will not have any impact to the 2018 consolidated financial statements.

- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required.

The Group is currently assessing the impact of adopting PFRS 15.

Effective beginning on or after January 1, 2019
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. Earlier application is permitted.

- PFRS 16, *Leases*
PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. Earlier application is permitted.

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

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

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

The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

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

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

3. Significant Accounting Judgments and Estimates

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

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

Judgments

a) *Contingencies*
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future 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 29).

b) *Business model for managing financial assets*

Sale of Investment Securities at Amortized Cost
The Parent Company's business model allows for financial assets to be held to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Parent Company considers the following:

- sales or derecognition of debt instrument under any of the circumstances spelled out under paragraph 7, Section 2 of BSP Circular No.708, Series of 2011;
- sales in preparation for funding a potential aberrant behavior in the depositors' withdrawal pattern triggered by news of massive withdrawals or massive withdrawal already experienced by other systemically important banks in the industry;
- sales attributable to an anticipated or in reaction to major events in the local and/or international arena that may adversely affect the collectability of the debt instrument and seen to prospectively affect adversely the behavior of deposits or creditors;
- sales attributable to a change in the Parent Company's strategy based on the final version of PFRS 9; and
- sales that the Asset-Liability Management Committee (ALCO) deems appropriate to be consistent with managing the Parent Company's balance sheet based upon but are not limited to the set risk limits and target ratios that have been approved by the BOD.

In 2017, the Parent Company sold various securities under its HTC portfolios (see Note 8). The sales reflect the change in the Parent Company's asset allocation strategy resulting from the change in direction from the new senior management team with regard to the Bank's approach to managing its financial assets in relation to the required minimum Liquidity Coverage Ratio (LCR) and the anticipated implementation of the final version of PFRS 9 on January 1, 2018. The addition of more senior officers into the Parent Company resulted in the major shift in the Parent Company's overall strategy giving rise to changes in its desired risk profile and asset mix as well as its approach to managing financial assets. With this change in strategy, the Parent Company changed its business models for managing investment securities. The new business models were approved by the Board of Directors on December 14, 2017. As required by PFRS 9, any reclassification of financial assets due to the change in the Parent Company's business models will be effected on January 1, 2018, the first day of the reporting period following the change in business models.

As of December 31, 2017, no additions to the affected HTC portfolios were made after the above disposals. Only one (1) security was left unsold. Even under the new business models, this security will be measured at amortized cost.

In 2015, the Parent Company sold various securities under its HTC portfolios (see Note 8) in anticipation of the effects of expected changes in regulatory requirements on liquidity. The Parent Company assessed whether such sales are still consistent with the objective of collecting contractual cash flows. The Parent Company concluded that despite the disposal, there is no change in its objective on managing these portfolios. Thus, the remaining securities in the affected portfolios continued to be measured at amortized cost as of December 31, 2015.

c) *Determination of joint control over EW Ageas Life*
Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, joint control is presumed to exist when the investors contractually agree on the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Based on the provisions of the joint venture arrangement between the Parent Company and Ageas (see Note 10), both parties have to agree in order for any resolution to be passed relating to the joint venture entity's relevant activities. This joint arrangement is classified as a joint venture since the parties have rights to the net assets of the joint venture entity.

d) *Business combination*
In determining whether a transaction or an event is a business combination, the Parent Company assessed whether the assets acquired and liabilities assumed constitute a business. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. Further, a business consists of inputs and processes applied to those inputs that have the ability to create outputs. Based on the provisions of the asset transfer agreement between the Parent Company and Standard Chartered Bank (see Note 7), the Parent Company has identified the acquisition as a business combination. In making this judgment, the Parent Company has assessed the retail banking portfolio acquired as capable of providing a return to the Parent Company in the form of revenues from lending and portfolio management activities.

Estimates

a) *Impairment of loans and receivables*
The Group reviews its loans and receivables at each statement of financial position date to assess whether impairment loss should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. Such estimates are based on assumptions about a number of factors (e.g., financial condition of the borrowers, estimated future cash flows from loans, and estimated net

selling prices of the collateral) and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also provides a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Factors considered in doing the impairment assessment are discussed further in Note 4.
The carrying values of loans and receivables and the related allowance for credit and impairment losses of the Group and of the Parent Company are disclosed in Note 9.

b) *Fair values of financial instruments*
The fair values of derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified independent personnel. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, the models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Fair value measurements of financial instruments are disclosed in Note 5.

c) *Impairment of nonfinancial assets*
The Group 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 Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to 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 Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed based on the higher of the asset's fair value less cost to sell or value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Group's and of the Parent Company's investment properties and intangible assets (excluding goodwill) follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Branch licenses (Note 13)	₱2,167,600	₱2,167,600	₱2,167,600	₱2,167,600
Investment properties (Note 12)	827,578	699,667	826,138	698,970
Other repossessed assets (Note 14)	783,487	932,735	783,487	932,735
Capitalized software (Note 13)	697,395	907,775	671,493	873,537
Customer relationship (Note 13)	116,543	120,854	116,543	120,854
Core deposits (Note 13)	62,405	8,762	62,405	8,762

d) *Impairment of goodwill*
The Group determines whether goodwill is impaired at least on an annual basis. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the CGU is insufficient to support its carrying value. The Group has used the cost of equity as the discount rate for the value in use (VIU) computation. The Group determined the cost of equity using the capital asset pricing model.

The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by the BOD covering a five-year period. Future cash flows from the CGU are estimated based on the theoretical annual income of the CGU. Average growth rate was derived from the average increase in annual income during the last 5 years. The discount rate applied reflects the current market assessment of the risk specific to each CGU. Key assumptions in VIU calculation of CGUs are most sensitive to the following assumptions: a) interest margin; b) discount rates; c) market share during the budget period; and d) projected growth rates used to extrapolate cash flows beyond the budget period.

The carrying values of goodwill of the Group are disclosed in Note 13.

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

The recognized and unrecognized net deferred tax assets of the Group and of the Parent Company are disclosed in Note 24.

f) *Retirement obligation*
The cost of defined benefit retirement plans and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on historical annual merit, market and promotional increase and future inflation rates.

The present value of the defined benefit obligation of the Group and of the Parent Company and details about the assumptions used are disclosed in Note 25.

g) *Valuation of exclusive bancassurance access or distribution rights*
The Parent Company entered into an exclusive distribution agreement with EW Ageas Life for a period of twenty (20) years. Under the distribution agreement, EW Ageas Life will have exclusive access to the branch network of the Parent Company for the distribution of its insurance products (the exclusive bancassurance access).

The fair value of the exclusive bancassurance access was determined based on a valuation done by an independent third party valuer, which used as inputs recent similar transactions and the number of branches and customers of the Parent Company. The fair value of the exclusive bancassurance access was recognized as deferred revenue to be amortized over the distribution period (see Notes 10 and 20).

4. Financial Risk Management Objectives and Policies

Risk Management
To ensure that corporate goals and objectives, and business and risk strategies are achieved, the Parent Company utilizes a risk management process that is applied throughout the organization in executing all business activities. Employees' functions and roles fall into one of the three categories where risk must be managed: business units, operating units and governance units.

The Parent Company's activities are principally related to the use of financial instruments and are exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks. Forming part of a coherent risk management system are the risk concepts, control tools, analytical models, statistical methodologies, historical researches and market analysis, which are being employed by the Parent Company. These tools support the key risk process that involves identifying, measuring, controlling and monitoring risks.

Risk Management Structure

a. Board of Directors (the Board or BOD)
The Parent Company's risk culture is practiced and observed across the Group, putting the prime responsibility on the BOD. It establishes the risk culture and the risk management organization and incorporates the risk process as an essential part of the strategic plan of the Group. The BOD approves the Parent Company's articulation of risk appetite which is used internally to help management understand the tolerance for risk in each of the major risk categories, its measurement and key controls available that influence the Parent Company's level of risk taking. All risk management policies and policy amendments, risk-taking limits such as but not limited to credit and trade transactions, market risk limits, counterparty limits, trader's limits and activities are based on the Parent Company's established approving authorities which are approved by the Parent Company's BOD. At a high level, the BOD also approves the Parent Company's framework for managing risk.

b. Executive Committee
This is a board level committee, which reviews the bank-wide credit strategy, profile and performance. It approves the credit risk-taking activities based on the Parent Company's established approving authorities and likewise reviews and endorses credit-granting activities, including the Internal Credit Risk Rating System. All credit proposals beyond the credit approving limit of the Loan and Investments Committee passes through this committee for final approval.

c. Loan and Investments Committee
This committee is headed by the Chairman of the Parent Company whose primary responsibility is to oversee the Parent Company's credit risk-taking activities and overall adherence to the credit risk management framework, review business/credit risk strategies, quality and profitability of the Parent Company's credit portfolio and recommend changes to the credit evaluation process, credit risk acceptance criteria and the minimum and target return per credit or investment transaction. All credit risk-taking activities based on the Parent Company's established approving authorities are evaluated and approved by this committee. It establishes an infrastructure by ensuring business units have the right systems and, adequate and competent manpower support to effectively manage its credit risk.

d. Asset-Liability Management Committee (ALCO)
ALCO, a management level committee, meets on a weekly basis and is responsible for the over-all management of the Parent Company's market, liquidity, and financial position related risks. It monitors the Parent Company's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring exposures remain within established tolerance levels. The ALCO's primary responsibilities include, among others,
(a) ensuring that the Parent Company and each business unit holds sufficient liquid assets of appropriate quality and in appropriate currencies to meet short-term funding and regulatory requirements, (b) managing financial position and ensuring that business strategies are consistent with its liquidity, capital and funding strategies, (c) establishing asset and/or liability pricing policies that are consistent with the financial position objectives, (d) recommending market and liquidity risk limits to the Risk Management Committee and BOD and (e) approving the assumptions used in contingency and funding plans. It also reviews cash flow forecasts, stress testing scenarios and results, and implements liquidity limits and guidelines.

e. Risk Management Committee (RMC)
RMC is a board level committee that convenes monthly and is primarily responsible to assist the Board in managing the Parent Company's risk taking activities. This is performed by the committee by institutionalizing risk policies and overseeing the Parent Company's risk management system. It develops and recommends risk appetite and tolerances for the Parent Company's major risk exposures to the Board. Risk management principles, strategies, framework, policies, processes, and initiatives and any modifications and amendments thereto are reviewed and approved by RMC. It oversees and reports to the Board the effectiveness of the risk management system, overall risk profile, and compliance with the risk appetite and tolerances that the Board approved.

f. Risk Management Subcommittee (RMSC)
RMSC is a management level committee that convenes, at least four times in a year, and is responsible to assist RMC in fulfilling its responsibilities in managing the Parent Company's risk taking activities. This is performed by the committee by implementing the risk management principles, strategies, framework, policies, processes, and initiatives across the Parent Company. It leads the effective conduct of risk and capital management. It oversees and directs the management of the Parent Company's overall risk profile. The committee likewise oversees risk incidents, control gaps, and control deficiencies and management actions in implementing the corresponding corrective actions.

g. Audit Committee (Audit Com)
The Audit Com assists the BOD in fulfilling its responsibilities for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide reasonable assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets. It is tasked to discuss with management the Parent Company's major risk exposures and ensures accountability on the part of management to monitor and control such exposures including the Parent Company's risk assessment and risk management policies. The Audit Com oversees the internal audit function and is responsible for monitoring and reviewing its effectiveness while ensuring its independence.

h. Corporate Governance and Compliance Committee (CGCC)
The CGCC leads the Parent Company in defining corporate governance policies and attaining best practices while overseeing the implementation of the Parent Company's compliance program, money laundering prevention program and ensuring that regulatory compliance issues are resolved expeditiously. In addition to its governance role, the CGCC also assumes the nomination function whereby it reviews and evaluates the qualifications of all persons nominated to the Board, all direct reports of the President and CEO, regardless of rank, heads of Governance Units and other positions of the Bank requiring appointment by the Board of Directors. The committee oversees the annual performance evaluation of the Board, its committees, and individual directors and conducts an annual self-evaluation of its performance as prescribed under and in accordance with the Corporate Governance Manual and the 2009 SEC Code of Corporate Governance.

i. Related Party Transactions (RPT) Committee
The RPT Committee assists the Board in ensuring that the transactions with related parties of the Parent Company are handled in a sound and prudent manner, with integrity and in compliance with the applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. It also ensures that related party transactions are conducted on an arm's length basis and that no stakeholder is unduly disadvantaged by such transactions.

j. Risk Management Division (RMD)
RMD performs an independent risk governance function within the Parent Company. RMD is tasked with identifying, measuring, controlling and monitoring existing and emerging risks inherent in the Parent Company's overall portfolio (on- or off-balance sheet). RMD develops and employs risk assessment tools to facilitate risk identification, analysis and measurement. It is responsible for developing and implementing the framework for policies and practices to assess and manage enterprise-wide market, credit, operational, and all other risks of the Parent Company.

It also develops and endorses risk tolerance limits for BOD approval, as endorsed by the RMC, and monitors compliance with approved risk tolerance limits. Finally, it regularly apprises the BOD, through the RMC, the results of its risk monitoring.

Notes to Financial Statements

k. Internal Audit Division (IAD)
IAD provides an independent assessment of the adequacy of the Parent Company's internal controls, risk management, governance framework and execution/operational practices. Internal audit activities are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA) and the Code of Ethics. IAD has an adopted a risk assessment methodology, which provides a sound basis in the selection of areas of coverage and frequency of audit for the preparation of the annual audit plan. IAD employs a risk-based audit approach that examines both the adequacy of the policies and the Parent Company's compliance with the procedures while assuring audit coverage of the areas identified as representing the greatest current risk. It discusses the results of assessments with management, and reports its findings and recommendations to the Audit Com. IAD's activities are suitably designed to provide the BOD with reasonable assurance that significant financial and operating information is materially complete, reliable and accurate; internal resources are adequately protected; and employee performance is in compliance with the Parent Company's policies, standards, procedures and applicable laws and regulations.

l. Compliance Division
Compliance Division is vested with the responsibility of overseeing the design of the Parent Company's Compliance Program and coordinating its effective implementation towards the sound management of Business and Compliance Risks. Its mandate is to ensure that the Parent Company is compliant with relevant and applicable laws, rules, regulations, codes of conduct and standards of good practice while avoiding an overly risk-averse environment that inhibits business growth. It serves as the Parent Company's central point of contact with banking regulators.

Credit Risk
Credit risk refers to the potential loss of earnings or capital arising from an obligor/s, customer/s or counterparty's failure to perform and/or to meet the terms of any contract with the Group. Credit risks may last for the entire tenor and set at the full amount of a transaction and in some cases, may exceed the original principal exposures. The risk may arise from lending, trade financing, trading, investments and other activities undertaken by the Group. To identify and assess this risk, the Group has: 1) approval process per borrower or business and/or product segment; and 2) structured and standardized credit rating for corporate loans and risk acceptance criteria for consumer loans. For large corporate credit transactions, the Parent Company has a comprehensive procedure for credit evaluation, risk assessment and well-defined concentration limits, which are established for each type of borrower. The Group's credit risk is managed at the portfolio level, which may be on an overall or by product perspective.

Credit concentration
Excessive concentration of lending plays a significant role in the weakening of asset quality. The Group reduces this risk by diversifying its loan portfolio across various sectors and borrowers. The Group believes that good diversification across economic sectors and geographic areas, among others, will enable it to ride through business cycles without causing undue harm to its asset quality.

The Group's loan portfolio in line with the Group's policy of not having significant concentrations of exposure to specific industries or group of borrowers. Management of concentration of risk is by client/counterparty and by industry sector. For risk concentration monitoring purposes, the financial assets are broadly categorized into loans and receivables, loans and advances to banks, and investment securities. The Group ensures compliance with BSP's limit on exposure to any single person or group of connected persons by closely monitoring large exposures and top 20 borrowers for both single and group accounts.

Aside from ensuring compliance with BSP's limit on exposures to any single person or group of connected persons, it is the Parent Company's policy to keep the expected loss (determined based on the credit risk rating of the account) of large exposure accounts to, at most, one and a half percent (1.50%) of their aggregate outstanding balance. This is to maintain the quality of the Group's large exposures. With this, accounts with better risk grades are given priority in terms of being granted a bigger share in the Group's loan facilities.

Aligned with the Manual of Regulations for Banks definition, the Group considers its loan portfolio concentrated if it has exposures of more than thirty percent (30.00%) to an industry.

Credit concentration profile as of December 31, 2017 and 2016

Maximum credit risk exposures
The following table shows the Group's and the Parent Company's maximum exposure to credit risk after taking into account any collateral held or other credit enhancements (amounts in millions):

	Consolidated							
	2017				2016			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral
Loans and receivables:								
Receivables from customers*								
Corporate lending	₱60,843	₱20,940	₱52,866	₱7,977	₱61,431	₱26,884	₱51,882	₱9,549
Consumer lending	149,634	81,630	95,699	53,935	128,738	67,405	87,063	41,675
	₱210,477	₱102,570	₱148,565	₱61,912	₱190,169	₱94,289	₱138,945	₱51,224

* Excludes unamortized premium but includes commitments and contingent accounts.

	Parent Company							
	2017				2016			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral
Loans and receivables:								
Receivables from customers*								
Corporate lending	₱60,843	₱20,940	₱52,866	₱7,977	₱61,431	₱26,884	₱51,882	₱9,549
Consumer lending	129,867	81,552	76,011	53,856	116,489	67,405	74,907	41,582
	₱190,710	₱102,492	₱128,877	₱61,833	₱177,920	₱94,289	₱126,789	₱51,131

* Excludes unamortized premium but includes commitments and contingent accounts.

For off-balance sheet items, the figures presented below as reported to BSP summarize the Group's and the Parent Company's maximum exposure to credit risk (amounts in millions):

	2017					2016				
	Notional Principal Amount	Credit Conversion Factor	Credit Equivalent Amount	Credit Risk Mitigation	Net Credit Exposure	Notional Principal Amount	Credit Conversion Factor	Credit Equivalent Amount	Credit Risk Mitigation	Net Credit Exposure
Off-balance sheet items*										
Direct credit substitutes										
Guarantees	₱529	100.00%	₱529	₱–	₱529	₱259	100.00%	₱259	₱–	₱259
Transaction-related contingencies										
Letters of credit	1,644	50.00%	822	–	822	1,631	50.00%	816	–	816
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year										
Guarantees	2,521	20.00%	504	–	504	1,584	20.00%	317	–	317
Letters of credit	2,927	20.00%	586	–	586	1,648	20.00%	329	–	329
	₱7,621		₱2,441	₱–	₱2,441	₱5,122		₱1,721	₱–	₱1,721

* For all other off-balance sheet exposures (see Note 29), credit conversion factor is 0.00%.

Large exposures and top 20 borrowers
The table below summarizes the top 20 borrowers and large exposures of the Group and the Parent Company:

	2017			
	Top 20 Borrowers		Large Exposures	
	Single Borrowers	Group Borrowers	Single Borrowers	Group Borrowers
Aggregate Exposure (in billions)	₱26.27	₱30.90	₱13.65	₱17.48
Composite Risk Rating	3.17	3.42	1.91	2.58
Total Credit Loss/Aggregate Exposure	1.05%	1.19%	0.32%	0.88%

	2016			
	Top 20 Borrowers		Large Exposures	
	Single Borrowers	Group Borrowers	Single Borrowers	Group Borrowers
Aggregate Exposure (in billions)	₱29.69	₱32.55	₱21.15	₱22.88
Composite Risk Rating	3.68	3.77	3.40	3.50
Total Credit Loss/Aggregate Exposure	1.29%	1.34%	1.14%	1.15%

The credit exposures, after due consideration of the allowed credit enhancements, of the Group are all compliant with the regulatory single borrower's limit and considered to be the maximum credit exposure to any client or counterparty.

Concentration by industry

An industry sector analysis of the financial assets of the Group follows (amounts in millions):

	2017			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱9,068	₱61,072	₱744	₱70,884
Government and foreign sovereign	-	-	8,115	8,115
Real estate, renting and business activity	19,158	-	-	19,158
Private households with employed persons	138,409	-	-	138,409
Wholesale and retail trade, repair of motor vehicles	20,089	-	-	20,089
Manufacturing	5,595	-	-	5,595
Agriculture, fisheries and forestry	1,244	-	-	1,244
Electricity, gas, steam and air-conditioning supply	8,676	-	2,419	11,095
Construction	2,514	-	-	2,514
Accommodation and food service activities	1,987	-	-	1,987
Administrative and support service activities	1,460	-	-	1,460
Other service activities	3,789	-	18	3,807
Holding	-	-	1,989	1,989
Others****	5,577	-	500	6,077
	217,566	61,072	13,785	292,423
Allowance for credit losses (Note 15)	(6,334)	-	-	(6,334)
	₱211,232	₱61,072	₱13,785	₱286,089

* Excludes unamortized premium but includes commitments and contingent accounts.
** Comprised of Due from BSP, Due from other banks and IBLR.
*** Comprised of Financial assets at FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost.
**** Pertains to unclassified loans and receivables, commitments and contingent accounts.

	2016			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱8,742	₱53,817	₱4,156	₱66,715
Government and foreign sovereign	-	-	5,740	5,740
Real estate, renting and business activity	17,796	-	-	17,796
Private households with employed persons	116,786	-	-	116,786
Wholesale and retail trade, repair of motor vehicles	18,601	-	-	18,601
Manufacturing	6,071	-	-	6,071
Agriculture, fisheries and forestry	1,985	-	-	1,985
Electricity, gas, steam and air-conditioning supply	9,617	-	3,646	13,263
Construction	2,469	-	-	2,469
Accommodation and food service activities	1,911	-	-	1,911
Administrative and support service activities	2,783	-	-	2,783
Other service activities	2,820	-	18	2,838
Holding	-	-	2,339	2,339
Others****	11,732	-	499	12,231
	201,313	53,817	16,398	271,528
Allowance for credit losses (Note 15)	(6,573)	-	-	(6,573)
	₱194,740	₱53,817	₱16,398	₱264,955

* Excludes unamortized premium but includes commitments and contingent accounts.
** Comprised of Due from BSP, Due from other banks and IBLR.
*** Comprised of Financial assets at FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost.
**** Pertains to unclassified loans and receivables, commitments and contingent accounts.

An industry sector analysis of the financial assets of the Parent Company follows (amounts in millions):

	2017			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱9,060	₱60,521	₱744	₱70,325
Government and foreign sovereign	-	-	8,115	8,115
Real estate, renting and business activity	19,144	-	-	19,144
Private households with employed persons	118,412	-	-	118,412
Wholesale and retail trade, repair of motor vehicles	20,081	-	-	20,081
Manufacturing	5,587	-	-	5,587
Agriculture, fisheries and forestry	1,244	-	-	1,244
Electricity, gas, steam and air-conditioning supply	8,676	-	2,419	11,095
Construction	2,510	-	-	2,510
Accommodation and food service activities	1,985	-	-	1,985
Administrative and support service activities	1,460	-	-	1,460
Other service activities	3,774	-	18	3,792
Holding	-	-	1,989	1,989
Others****	5,548	-	500	6,048
	197,481	60,521	13,785	271,787
Allowance for credit losses (Note 15)	(5,959)	-	-	(5,959)
	₱191,522	₱60,521	₱13,785	₱265,828

* Excludes unamortized premium but includes commitments and contingent accounts.
** Comprised of Due from BSP, Due from other banks and IBLR.
*** Comprised of Financial assets at FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost.
**** Pertains to unclassified loans and receivables, commitments and contingent accounts.

	2016			
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Total
Financial intermediaries	₱8,711	₱53,463	₱4,156	₱66,330
Government and foreign sovereign	-	-	5,740	5,740
Real estate, renting and business activity	17,784	-	-	17,784
Private households with employed persons	104,546	-	-	104,546
Wholesale and retail trade, repair of motor vehicles	18,590	-	-	18,590
Manufacturing	6,062	-	-	6,062
Agriculture, fisheries and forestry	1,956	-	-	1,956
Electricity, gas, steam and air-conditioning supply	9,617	-	3,646	13,263
Construction	2,465	-	-	2,465
Accommodation and food service activities	1,907	-	-	1,907
Administrative and support service activities	2,783	-	-	2,783
Other service activities	2,801	-	18	2,819
Holding	-	-	2,339	2,339
Others****	11,548	-	499	12,047
	188,770	53,463	16,398	258,631
Allowance for credit losses (Note 15)	(6,314)	-	-	(6,314)
	₱182,456	₱53,463	₱16,398	₱252,317

* Excludes unamortized premium but includes commitments and contingent accounts.
** Comprised of Due from BSP, Due from other banks and IBLR.
*** Comprised of Financial assets at FVTPL, Financial assets at FVTOCI and Investment securities at amortized cost.
**** Pertains to unclassified loans and receivables, commitments and contingent accounts.

Collateral and other credit enhancements

Collaterals are taken into consideration during the loan application process as they offer an alternative way of collecting from the client should a default occur. The percentage of loan value attached to the collateral offered is part of the Group's lending guidelines. Such percentages take into account safety margins for foreign exchange rate exposure/fluctuations, interest rate exposure, and price volatility.

Collaterals are valued according to existing credit policy standards and, following the latest appraisal report, serve as the basis for the amount of the secured loan facility.

Premium security items are collaterals that have the effect of reducing the estimated credit risk for a facility. The primary consideration for enhancements falling under such category is the ease of converting them to cash.

The Group is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. It is the Group's policy to dispose foreclosed assets in an orderly fashion. The proceeds of the sale of the foreclosed assets, included under Investment Properties, are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

As part of the Group's risk control on security/collateral documentation, standard documents are made for each security type and deviation from the pro-forma documents are subject to legal review prior to implementation.

Credit collaterals profile
The table below provides the collateral profile of the outstanding loan portfolio of Group and the Parent Company:

	Consolidated			
Security	Corporate Loans		Consumer Loans	
	2017	2016	2017	2016
Real Estate Mortgage	**11.68%**	23.35%	**10.66%**	9.96%
Other Collateral*	**22.55%**	19.23%	**42.98%**	41.53%
Unsecured	**65.77%**	57.42%	**46.36%**	48.51%

* Consists of government securities, corporate bonds, shares of stock, hold-out on deposits, assignment of vehicles, assignment of receivables etc.

	Parent Company			
Security	Corporate Loans		Consumer Loans	
	2016	2015	2017	2016
Real Estate Mortgage	**11.68%**	23.35%	**12.25%**	10.94%
Other Collateral*	**22.55%**	19.23%	**49.64%**	45.95%
Unsecured	**65.77%**	57.42%	**38.11%**	43.11%

* Consists of government securities, corporate bonds, shares of stock, hold-out on deposits, assignment of vehicles, assignment of receivables, etc.

As for the computation of credit risk weights, hold-out on deposits with the Parent Company, Home Guaranty cover, and Philippine sovereign guarantees are the only credit risk mitigants considered as eligible.

Internal Credit Risk Rating System
The Parent Company employs a credit scoring system for all corporate borrowers to assess risks relating to the borrower and the loan exposure. Borrower risk is evaluated by considering (a) quantitative factors, such as financial condition and (b) qualitative factors, such as management quality and industry outlook.

Financial condition assessment focuses on profitability, liquidity, working capital management, and leverage. Management quality determination is based on the borrower's strategies, management competence and skills, and management of banking relationship while industry outlook is evaluated based on its importance to the economy, growth, industry structure and relevant government policies. Based on these factors, each borrower is assigned a Borrower Risk Rating (BRR), that ranges from 1 to 6. A borrower may be downgraded when it exhibits the characteristics of a classified account described below, in which case it will be assigned a risk rating ranging from 7 to 10.

Consideration is also given to security arrangements in computing for the final BRR. Depending on certain requisites, an account secured by real estate mortgages and hold-out on deposits or guarantees may be upgraded to better risk classifications.

The BRR for each borrower is reviewed annually. A more frequent review is warranted in cases where the borrower has a higher risk profile or when there are extraordinary or adverse developments affecting the borrower, the industry and/or the Philippine economy.

The following is a brief explanation of the Parent Company's risk grades:

Rating	Description	Account/Borrower Characteristics
1	Excellent	• low probability of going into default within the coming year; very high debt service capacity and balance sheets show no sign of any weakness • has ready access to adequate funding sources • high degree of stability, substance and diversity • of the highest quality under virtual economic conditions
2	Strong	• low probability of going into default in the coming year • access to money markets is relatively good • business remains viable under normal market conditions • strong market position with a history of successful financial performance • financials show adequate cash flows for debt servicing and generally conservative balance sheets
3	Good	• sound but may be susceptible, to a limited extent, to cyclical changes in the markets in which they operate • financial performance is good and capacity to service debt remains comfortable • cash flows remain healthy and critical balance sheet ratios are at par with industry norms • reported profits in the past three years and expected to sustain profitability in the coming year
4	Satisfactory	• clear risk elements exist and probability of going into default is somewhat greater, as reflected in the volatility of earnings and overall performance • normally have limited access to public financial markets • able to withstand normal business cycles, but expected to deteriorate beyond acceptable levels under prolonged unfavorable economic period • combination of reasonably sound asset and cash flow protection
5	Acceptable	• risk elements for the Parent Company are sufficiently pronounced, but would still be able to withstand normal business cycles • immediate deterioration beyond acceptable levels is expected given prolonged unfavorable economic period • there is sufficient cash flow either historically or expected in the future in spite of economic downturn combined with asset protection
5B	Acceptable	• financial condition hard to ascertain due to weak validation of financial statements coupled by funding leakages to other business interests whose financial condition is generally unknown • continuous decline in revenues and margins due to competition; increasing debt levels not commensurate to growth in revenues and funding requirements • thin margin business with banks financing bulk of working capital and capex requirements coupled by substantial dividend pay-outs • chronically tight cash flows with operating income negative or barely enough for debt servicing • lines with banks maxed out and availments evergreen with minimal payments made over time or with past record of past due loans with other banks, cancelled credit cards and court cases
6	Watchlist	• affected by unfavorable industry or company-specific risk factors • operating performance and financial strength may be marginal and ability to attract alternative sources of finance is uncertain • difficulty in coping with any significant economic downturn; some payment defaults encountered • net losses for at least two consecutive years
7	Special Mention	• ability or willingness to service debt are in doubt • weakened creditworthiness • expected to experience financial difficulties, putting the Parent Company's exposure at risk
8	Substandard	• collectability of principal or interest becomes questionable by reason of adverse developments or important weaknesses in financial cover • negative cash flows from operations and negative interest coverage • past due for more than 90 days • there exists the possibility of future loss to the Parent Company unless given closer supervision
9	Doubtful	• unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service are doubtful • with non-performing loan (NPL) status • previously rated 'Substandard' by the BSP • loss on credit exposure unavoidable
10	Loss	• totally uncollectible • prospect of re-establishment of creditworthiness and debt service is remote • lender shall take or has taken title to the assets and is preparing foreclosure and/or liquidation although partial recovery may be obtained in the future • considered uncollectible or worthless and of such little value that continuance as bankable assets is not warranted although the loans may have some recovery or salvage value

It is the Parent Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates a focused management of the applicable risk and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Parent Company's rating policy. The risk ratings are assessed and updated regularly.

Credit Quality Profile as of December 31, 2017 and 2016
External ratings
The Group also uses external ratings, such as Standard & Poor's, Moody's, and Fitch, to evaluate its counterparties and in its assignment of credit risk weights to its banking book exposures. Transactions falling under this category are normally of the following nature: placements with other banks, money market lending, debt security investments, and to some extent, equity security investments.

Investments and financial securities

The table below shows the credit quality, based on external ratings, per class of the Group's financial assets other than loans and receivables that are neither past due nor impaired (amounts in millions):

	2017			
	At Least Investment Grade*	Below Investment Grade**	Unrated	Total
Due from BSP	₱39,321	₱–	₱–	₱39,321
Due from other banks	9,273	69	21	9,363
IBLR	12,388	–	–	12,388
Financial assets at FVTPL:				
Government securities	4,036	–	–	4,036
Private bonds	2,821	446	–	3,267
Equity securities	–	–	10	10
	6,857	446	10	7,313
Investment securities at amortized cost:				
Government securities	5,246	–	–	5,246
Private bonds	1,226	–	–	1,226
	6,472	–	–	6,472
	₱74,311	₱515	₱31	₱74,857

* Rated AA to BBB
** Rated BB to B only and does not include junk bonds (i.e., rated CCC and below)

	2016			
	At Least Investment Grade*	Below Investment Grade**	Unrated	Total
Due from BSP	₱39,343	₱–	₱–	₱39,343
Due from other banks	6,947	3	21	6,971
IBLR	7,503	–	–	7,503
Financial assets at FVTPL:				
Government securities	994	–	–	994
Private bonds	4,247	–	17	4,264
Equity securities	–	–	10	10
	5,241	–	27	5,268
Investment securities at amortized cost:				
Government securities	5,761	–	–	5,761
Private bonds	5,369	–	–	5,369
	11,130	–	–	11,130
	₱70,164	₱3	₱48	₱70,215

* Rated AA to BBB
** Rated BB to B only and does not include junk bonds (i.e., rated CCC and below)

The table below shows the credit quality, based on external ratings, per class of the Parent Company's financial assets other than loans and receivables that are neither past due nor impaired (amounts in millions):

	2017			
	At Least Investment Grade*	Below Investment Grade**	Unrated	Total
Due from BSP	₱38,792	₱–	₱–	₱38,792
Due from other banks	9,251	69	21	9,341
IBLR	12,388	–	–	12,388
Financial assets at FVTPL:				
Government securities	4,036	–	–	4,036
Private bonds	2,821	446	–	3,267
Equity securities	–	–	10	10
	6,857	446	10	7,313
Investment securities at amortized cost:				
Government securities	5,246	–	–	5,246
Private bonds	1,226	–	–	1,226
	6,472	–	–	6,472
	₱73,760	₱515	₱31	₱74,306

* Rated AA to BBB
** Rated BB to B only and does not include junk bonds (i.e., rated CCC and below)

	2016			
	At Least Investment Grade*	Below Investment Grade**	Unrated	Total
Due from BSP	₱39,020	₱–	₱–	₱39,020
Due from other banks	6,918	3	20	6,941
IBLR	7,503	–	–	7,503
Financial assets at FVTPL:				
Government securities	994	–	–	994
Private bonds	4,247	–	17	4,264
Equity securities	–	–	10	10
	5,241	–	27	5,268
Investment securities at amortized cost:				
Government securities	5,761	–	–	5,761
Private bonds	5,369	–	–	5,369
	11,130	–	–	11,130
	₱69,812	₱3	₱47	₱69,862

* Rated AA to BBB
** Rated BB to B only and does not include junk bonds (i.e., rated CCC and below)

The tables below show the credit quality, based on the credit rating system, by class of loans and receivables that are neither past due nor impaired (i.e., non-performing or past due by more than 90 days) of the Group (amounts in millions):

	2017				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers:					
Corporate lending	₱21,969	₱39,141	₱–	₱–	₱61,110
Consumer lending	34,009	83,846	29,491	–	147,346
	55,978	122,987	29,491	–	208,456
Unquoted debt securities	–	–	–	324	324
Accounts receivable	–	–	–	468	468
Accrued interest receivable	299	445	363	877	1,984
Sales contract receivable	–	–	–	147	147
	299	445	363	1,816	2,923
	₱56,277	₱123,432	₱29,854	₱1,816	₱211,379

	2016				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers:					
Corporate lending	₱23,325	₱38,820	₱–	₱–	₱62,145
Consumer lending	29,099	63,711	26,082	–	118,892
	52,424	102,531	26,082	–	181,037
Unquoted debt securities	–	–	–	327	327
Accounts receivable	–	–	–	1,133	1,133
Accrued interest receivable	273	414	480	769	1,936
Sales contract receivable	–	–	–	177	177
	273	414	480	2,406	3,573
	₱52,697	₱102,945	₱26,562	₱2,406	₱184,610

The tables below show the credit quality, based on the credit rating system, by class of loans and receivables that are neither past due nor impaired (i.e., non-performing or past due by more than 90 days) of the Parent Company (amounts in millions):

	2017				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers:					
Corporate lending	₱21,969	₱39,141	₱–	₱–	₱61,110
Consumer lending	15,420	83,846	29,491	–	128,757
	37,389	122,987	29,491	–	189,867
Unquoted debt securities	–	–	–	324	324
Accounts receivable	–	–	–	522	522
Accrued interest receivable	175	445	363	785	1,768
Sales contract receivable	–	–	–	147	147
	175	445	363	1,778	2,761
	₱37,564	₱123,432	₱29,854	₱1,778	₱192,628

	2016				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Receivables from customers:					
Corporate lending	₱23,325	₱38,820	₱–	₱–	₱62,145
Consumer lending	16,963	63,711	26,082	–	106,756
	40,288	102,531	26,082	–	168,901
Unquoted debt securities	–	–	–	327	327
Accounts receivable	–	–	–	1,214	1,214
Accrued interest receivable	148	414	480	768	1,810
Sales contract receivable	–	–	–	177	177
	148	414	480	2,486	3,528
	₱40,436	₱102,945	₱26,562	₱2,486	₱172,429

Borrowers with unquestionable repaying capacity and to whom the Group is prepared to lend on an unsecured basis, either partially or totally, are generally rated as High Grade borrowers. Included in the High-Grade category are those accounts that fall under 'Excellent', 'Strong', 'Good' and 'Satisfactory' categories under ICRRS (with rating of 1-4).

Standard rated borrowers normally require tangible collateral, such as real estate mortgage (REM), to either fully or partially secure the credit facilities as such accounts indicate a relatively higher credit risk than those considered as High Grade. Included in Standard Grade category are those accounts that fall under 'Acceptable' and 'Watchlist' categories under ICRRS (with rating of 5-6).

Substandard Grade accounts pertain to unsecured revolving credit facilities.

Notes to Financial Statements

Those accounts that are classified as unrated include unquoted debt securities, accounts receivable, accrued interest receivable and sales contract receivable for which the Group has not yet established a credit rating system.

Impairment Assessment
On a regular basis, the Group conducts an impairment assessment exercise to determine credit losses on its loans portfolio.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 to 90 days as applicable, or if there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: specific or individually assessed allowances and collectively assessed allowances.

a. Specific Impairment Testing
Specific impairment testing is the process whereby classified accounts, that are individually significant, are subject to impairment testing. Classified accounts are past due accounts and accounts whose credit standing and/or collateral has weakened due to varying circumstances. This present status of the account may adversely affect the collection of both principal and interest payments.

The net recoverable amount is computed using the present value approach. The discount rate used for loans with fixed and floating interest rate is the original effective interest rate and last repriced interest rate, respectively. Net recoverable amount is the total cash inflows to be collected over the remaining term of the loan or the expected proceeds from the sale of collateral. Specific impairment testing parameters include the account information (original and outstanding loan amount), interest rate (nominal and original effective interest rate) and the business plan. Also included are the expected date of recovery, expected cash flows, probability of collection, and the carrying value of loan and net recoverable amount.

The Group conducts specific impairment testing on classified (i.e. rated 7-10) and restructured corporate accounts. Indicators of credit quality deterioration that merit specific impairment testing include past due status of the accounts, decline in credit rating from independent rating agencies for investment securities and recurring net losses.

b. Collective Impairment Testing
All other accounts which were not individually assessed are grouped based on similar credit characteristics and are collectively assessed for impairment. This is also in accordance with PAS 39, which provides that all loan accounts not included in the specific impairment test shall be subjected to collective impairment testing.
Collective impairment testing of corporate accounts
Corporate accounts, which are unclassified and with current status are grouped in accordance with the Parent Company's internal credit risk rating. Each internal credit risk rating would fetch an equivalent loss impairment where the estimated loss is determined in consideration of the Parent Company's historical loss experience. Impairment loss is derived by multiplying the outstanding loan balance on a per internal credit risk rating basis against a factor rate. The factor rate, which estimates the expected loss from the credit exposure, is the product of the Default Rate (DR) and the Loss Given Default Rate (LGDR). DR is estimated based on the
3-year historical average default experience by internal credit risk rating of the Parent Company, while, LGDR is estimated based on loss experience (net of recoveries from collateral) for the same reference period.

Collective impairment testing of consumer accounts
Consumer accounts, both in current and past due status are collectively tested for impairment as required under PAS 39. Accounts are grouped by type of product - personal loans, salary loans, housing loans, auto loans and credit cards.

The estimation of the impaired consumer products' estimated loss is based on three major concepts: age buckets, probability of default and recoverability. Per product, exposures are categorized per their state of delinquency - (1) current; (2) past due (which is subdivided into 30, 60, 90, 120, 150, 180 and more than 180 days past due); and (3) items in litigation (ITL). Auto, housing and salary loans have an additional bucket for its items in litigation accounts. The Group partitions its exposures as it recognizes that the age buckets have different rates and/ or probabilities of default. The initial estimates of losses per product due to default are then adjusted based on the recoverability of cash flows, to calculate the credit loss of the Group. Auto and housing loans consider the proceeds from the eventual sale of foreclosed collaterals in approximating its recovery rate; while credit cards, salary loans and personal loans depend on the collection experience of its receivables. Further, for housing loans, due to the nature of the assets offered as security, and as the exposures are limited to a certain percentage of the same, this product possesses the unique quality of obtaining over 95% recoverability. These default and recovery rates are based on the Group's historical experience, which covers a minimum of two to three (2-3) years cycle, depending on the availability and relevance of data.

The table below shows the aging analysis of the past due but not impaired loans and receivables per class of the Group and of the Parent Company. Under PFRS 7, a financial asset is past due when a counterparty has failed to make payments when contractually due (amounts in millions):

	Consolidated 2017					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables:						
Corporate lending	₱–	₱–	₱3	₱–	₱–	₱3
Consumer lending	777	2,307	2,803	191	321	6,399
	₱777	₱2,307	₱2,806	₱191	₱321	₱6,402

	Consolidated 2016					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables:						
Corporate lending	₱9	₱25	₱35	₱–	₱–	₱69
Consumer lending	194	1,552	2,631	147	294	4,818
	₱203	₱1,577	₱2,666	₱147	₱294	₱4,887

	Parent Company 2017					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables:						
Corporate lending	₱–	₱–	₱3	₱–	₱–	₱3
Consumer lending	167	2,146	2,692	191	321	5,517
	₱167	₱2,146	₱2,695	₱191	₱321	₱5,520

	Parent Company 2016					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days	Total
Loans and receivables:						
Corporate lending	₱9	₱25	₱35	₱–	₱–	₱69
Consumer lending	104	1,504	2,608	147	294	4,657
	₱113	₱1,529	₱2,643	₱147	₱294	₱4,726

Collaterals of past due but not impaired loans mostly consist of real estate mortgage (REM) of industrial, commercial, residential and developed agricultural real estate properties.

Credit risk weighting as of December 31, 2017, and 2016
Total credit risk exposure after risk mitigation
The table below shows the different credit risk exposures of the Group and of the Parent Company after credit risk mitigation, by risk weight applied in accordance with BSP Circular No. 538 (amounts in millions):

	Consolidated 2017							
	Capital	Risk Buckets						
	Deduction	0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱9,875	₱49,418	₱13,442	₱14,938	₱10,428	₱188,219	₱6,173	₱282,618
Off-balance sheet assets	–	–	–	–	–	2,440	–	2,440
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	9,875	49,418	13,442	14,938	10,428	190,659	6,173	285,058
Credit Risk Weighted Assets	₱–	₱–	₱2,688	₱7,469	₱7,821	₱190,659	₱9,259	₱217,896

	Consolidated 2016							
	Capital Deduction	Risk Buckets 0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱9,615	₱48,247	₱8,502	₱17,846	₱10,435	₱171,725	₱8,247	₱265,002
Off-balance sheet assets	–	–	–	–	–	1,721	–	1,721
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	9,615	48,247	8,502	17,846	10,435	173,446	8,247	266,723
Credit Risk Weighted Assets	₱–	₱–	₱1,700	₱8,923	₱7,826	₱173,446	₱12,370	₱204,265

	Parent Company 2017							
	Capital Deduction	Risk Buckets 0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱13,118	₱48,857	₱13,442	₱14,938	₱10,428	₱168,471	₱5,958	₱262,094
Off-balance sheet assets	–	–	–	–	–	2,440	–	2,440
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	13,118	48,857	13,442	14,938	10,428	170,911	5,958	264,534
Credit Risk Weighted Assets	₱–	₱–	₱2,688	₱7,469	₱7,821	₱170,911	₱8,937	₱197,826

	Parent Company 2016							
	Capital Deduction	Risk Buckets 0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱11,697	₱47,814	₱8,499	₱17,846	₱10,435	₱159,629	₱8,049	₱252,272
Off-balance sheet assets	–	–	–	–	–	1,721	–	1,721
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	11,697	47,814	8,499	17,846	10,435	161,350	8,049	253,993
Credit Risk Weighted Assets	₱–	₱–	₱1,700	₱8,923	₱7,826	₱161,350	₱12,073	₱191,872

Liquidity Risk

Liquidity risk is the risk that sufficient funds are unavailable to adequately meet all maturing liabilities, including demand deposits and off-balance sheet commitments. The main responsibility of daily asset liability management lies with the Parent Company's Treasury Group, specifically the Liquidity Desk, which are tasked to manage the balance sheet and have thorough understanding of the risk elements involved in the respective businesses. Only the Parent Company and EWRB are potentially exposed to liquidity risk exposures, where their liquidity risk management are monitored by their respective ALCOs. Resulting analysis of the balance sheet along with the recommendation is presented during the weekly ALCO meeting where deliberations, formulation of actions and decisions are made to minimize risk and maximize returns. Discussions include actions taken in the previous ALCO meeting, economic and market status and outlook, liquidity risk, pricing and interest rate structure, limit status and utilization. To ensure that both the Parent Company and EWRB has sufficient liquidity at all times, the respective ALCO formulates a contingency funding plan which sets out the amount and the sources of funds (such as unutilized credit facilities) available to both entities and the circumstances under which such funds will be used.

By way of the Maximum Cumulative Outflow (MCO) limit, the Group is able to manage its long-term liquidity risks by placing a cap on the outflow of cash on a per tenor and on a cumulative basis. The Group takes a multi-tiered approach to maintaining liquid assets. The Group's principal source of liquidity is comprised of COCI, Due from BSP, Due from other banks and IBLR with maturities of less than one year. In addition to regulatory reserves, the Parent Company maintains a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that can be realized quickly.

Analysis of financial assets and liabilities by remaining contractual maturities

The tables below show the maturity profile of the financial assets and liabilities of the Group and of the Parent Company, based on its internal methodology that manages liquidity based on combined behavioral assumptions and contractual undiscounted cash flows (amounts in millions):

	Consolidated 2017						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱62,053	₱5,742	₱–	₱–	₱–	₱–	₱67,795
Investments and trading securities**	–	7,313	–	–	333	7,690	15,336
Loans and receivables***	–	24,635	20,177	16,687	24,737	171,729	257,965
	₱62,053	₱37,690	₱20,177	₱16,687	₱25,070	₱179,419	₱341,096
Financial Liabilities							
Deposit liabilities****	₱–	₱24,374	₱7,308	₱6,390	₱967	₱243,145	₱282,184
Bills and acceptances payable	–	5,435	–	–	748	1,780	7,963
Subordinated debt	–	–	–	–	–	7,465	7,465
Other liabilities	–	477	–	–	3,791	1,469	5,737
Contingent liabilities*****	–	897	–	–	10	27	934
	₱–	₱31,183	₱7,308	₱6,390	₱5,516	₱253,886	₱304,283

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts and other assets classified as financial assets.
**** Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.
***** Consists of stand-by letters of credit and interest rate swap receivables.

	Consolidated 2016						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and cash equivalents*	₱52,938	₱7,503	₱–	₱–	₱–	₱–	₱60,441
Investments and trading securities**	–	5,803	90	408	224	12,513	19,038
Loans and receivables***	–	26,304	37,948	25,767	33,079	114,479	237,577
	₱52,938	₱39,610	₱38,038	₱26,175	₱33,303	₱126,992	₱317,056
Financial Liabilities							
Deposit liabilities****	₱–	₱10,308	₱14,104	₱15,324	₱5,571	₱209,704	₱255,011
Bills and acceptances payable	–	482	474	500	754	–	2,210
Subordinated debt	–	–	–	–	–	5,825	5,825
Other liabilities	–	1,597	–	–	–	7,856	9,453
Contingent liabilities*****	–	1,631	9	3	9	91	1,743
	₱–	₱14,018	₱14,587	₱15,827	₱6,334	₱223,476	₱274,242

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts and other assets classified as financial assets.
**** Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.
***** Consists of stand-by letters of credit and interest rate swap receivables.

	Parent Company 2017						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱61,470	₱5,742	₱–	₱–	₱–	₱–	₱67,212
Investments and trading securities**	–	7,313	–	–	333	7,690	15,336
Loans and receivables***	–	23,039	19,677	15,822	22,250	156,644	237,432
	₱61,470	₱36,094	₱19,677	₱15,822	₱22,583	₱164,334	₱319,980
Financial Liabilities							
Deposit liabilities****	₱–	₱23,406	₱6,019	₱4,778	₱–	₱231,861	₱266,064
Bills and acceptances payable	–	5,365	–	–	646	1,694	7,705
Subordinated debt	–	–	–	–	–	5,550	5,550
Other liabilities	–	466	–	–	3,663	1,456	5,585
Contingent liabilities*****	–	897	–	–	10	27	934
	₱–	₱30,134	₱6,019	₱4,778	₱4,319	₱240,588	₱285,838

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts and other assets classified as financial assets.
**** Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.
***** Consists of stand-by letters of credit and interest rate swap receivables.

Notes to Financial Statements

	Parent Company						
	2016						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱52,472	₱7,503	₱–	₱–	₱–	₱–	₱59,975
Investments and trading securities**	–	5,803	90	408	224	12,513	19,038
Loans and receivables***	–	24,599	35,519	24,687	31,348	109,189	225,342
	₱52,472	₱37,905	₱35,609	₱25,095	₱31,572	₱121,702	₱304,355
Financial Liabilities							
Deposit liabilities****	₱–	₱9,656	₱13,235	₱14,270	₱5,080	₱202,523	₱244,764
Bills and acceptances payable	–	482	474	500	754	–	2,210
Subordinated debt	–	–	–	–	–	5,825	5,825
Other liabilities	–	1,587	–	–	–	7,595	9,182
Contingent liabilities*****	–	1,631	9	3	9	91	1,743
	₱–	₱13,356	₱13,718	₱14,773	₱5,843	₱216,034	₱263,724

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR

** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost.

*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts and other assets classified as financial assets.

**** Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities.

***** Consists of stand-by letters of credit and interest rate swap receivables.

The Parent Company manages liquidity by maintaining sufficient liquid assets in the form of cash and cash equivalents, investment securities and loan receivables. As of December 31, 2017 and 2016, ₱96.31 billion and ₱100.77 billion, respectively, or 48.31% and 53.86%, respectively, of the Parent Company's total gross loans and receivables had remaining maturities of less than one (1) year. The total portfolio of trading and investment securities is comprised mostly of sovereign-issued securities that have high market liquidity. The Parent Company was fully compliant with BSP's limits on FCDU Asset Cover and FCDU Liquid Assets Cover, having reported ratios above 100.00% as of December 31, 2017 and 2016. With the above presented liquidity profile, the Group remains to be inhibited from liquidity risk that it cannot adequately manage.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Parent Company treats exposures to market risk as either for trading or accrual/balance sheet exposure. The market risk for the trading portfolio is measured using Value at Risk (VaR). Interest rate risk of accrual portfolios in the Banking Book are measured using Earnings at Risk (EaR).

Market risk in the trading book

The Board has set limits on the level of market risk that may be accepted. VaR limits are applied at the instrument level and approved by the BOD based on, among other things, a business unit's capacity to manage price risks, the size and distribution of the aggregate exposure to price risks and the expected return relative to price risks.

The Parent Company applies the VaR methodology to assess the market sensitive positions held for trading and to estimate the potential economic loss based on parameters and assumptions. VaR is a method used in measuring market risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

Objectives and limitations of the VaR Methodology

The Parent Company uses the VaR model of Bloomberg Portfolio Analytics using one-year historical data set to assess possible changes in the market value of the Fixed Income, Equities, and Foreign Exchange trading portfolio. VaR for the US Treasury Futures is measured using Historical Simulation using an internally developed Excel spreadsheet. The Interest Rate Swaps (IRS) and Foreign Exchange (FX) Forwards (Outright and forward leg of FX Swaps) trading portfolio's interest rate risk is measured using Monte Carlo VaR using OPICS Risk Plus. The VaR models are designed to measure market risk in a normal market environment. The use of VaR has limitations because correlations and volatilities in market prices are based on historical data and VaR assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated.

VaR may also be under or overestimated due to assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, VaR only represents the risk of the portfolio at the close of each business day, and it does not account for any losses that may occur beyond the specified confidence level.

In practice, actual trading results will differ from the VaR calculation and the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR model, actual outcomes are monitored through hypothetical and actual backtesting to test the accuracy of the VaR model.

Stress testing provides a means of complementing VaR by simulating the potential loss impact on market risk positions from extreme market conditions, such as risk factor movements based on historical financial market stress conditions and scenarios adopted from the uniform stress testing framework of the BSP.

VaR assumptions

The VaR that the Parent Company uses is premised on a 99% confidence level that this potential loss estimate is not expected to be exceeded if the current market risk positions were to be held unchanged for a given holding period. Foreign exchange and US Treasury Futures VaR is measured using one (1) day holding period while fixed income VaR has a holding period of five (5) days. Furthermore, the Parent Company's equity and interest rate swap (IRS) trading positions are assumed to be closed out in ten (10) days. The use of a 99% confidence level means that within the set time horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

VaR is an integral part of the Parent Company's market risk management and encompasses investment positions held for trading. VaR exposures form part of the market risk monitoring which is reviewed daily against the limit approved by the Board. The trading activities are controlled through the Market Risk Limit (MRL), which is a dynamic risk limit anchored on the principle of risk and return which is adjusted by net trading gains (added in half) or losses subtracted in whole. RMD reports compliance to the MRL and trader's VaR limits daily. If the MRL or individual trader's limit is exceeded, such occurrence is promptly reported to the Treasurer, Chief Operating Officer, Chief Risk Officer and the President, and further to the Board through the RMC.

The table below pertains to interest rate risk of the Parent Company's fixed income trading portfolio (amounts in thousands):

	2017	2016
Year-end VaR	₱65,510	₱74,713
Average VaR	172,521	238,951
Highest VaR	318,597	581,383
Lowest VaR	53,633	71,761

The year-end VaR for 2017 was based on the Parent Company's fixed income trading book valued at ₱7.25 billion with average yields of 4.44% and 3.54% for the Peso and Foreign currency denominated bonds, respectively. Its average maturities are 4 year and 9 months for the Peso portfolio and 6 years and 5 months for the foreign currency portfolio.

The year-end VaR for 2016 was based on the Parent Company's fixed income trading book valued at ₱4.90 billion with average yields of 2.26% and 3.81% for the Peso and Foreign currency denominated bonds, respectively. Its average maturities are 1 year and 1 month for the Peso portfolio and 5 years and 3 months for the foreign currency portfolio.

The market risk in the Parent Company's US Treasury Futures trading positions is shown in the table below (amounts in thousands):

	2017	2016	
Year-end VaR	₱1,726	₱14,911**	
Average VaR	11,900	7,709*	9,940**
Highest VaR	63,894	34,150*	15,798**
Lowest VaR	292	70*	1903**

** January 1 to November 23, 2016 - VaR is calculated using Bloomberg MARS*

*** November 24 to December 29, 2016 - VaR is calculated using an internally developed Excel spreadsheet*

The market risk in the Parent Company's IRS trading positions is shown in the table below (amounts in thousands):

	2017	2016
Year-end VaR	₱14,111	₱27,873
Average VaR	21,465	18,545
Highest VaR	29,674	30,517
Lowest VaR	14,031	14,168

The Parent Company's end-2016 and end-2017 IRS positions have a notional amount of US$20.00 million where it pays fixed rate and receives floating rate interest.

The interest rate risk in the Parent Company's FX forwards positions is shown in the table below (amounts in thousands):

	2017	2016
Year-end VaR	₱123	₱235
Average VaR	340	76
Highest VaR	2,373	564
Lowest VaR	3	2

Foreign Currency Risk

The Parent Company holds foreign currency denominated assets and liabilities, thus, foreign exchange rate fluctuations can affect the financials and cash flows of the Parent Company. Managing the foreign exchange exposure is important for banks with exposures in foreign currencies. For the Parent Company, this includes purchase or sell of foreign currency to control the impact of changes in exchange rates on its financial position.

The table below pertains to the foreign exchange risk of the Parent Company (amounts in thousands):

	2017	2016
Year-end VaR	₱2,251	₱465
Average VaR	2,649	1,162
Highest VaR	12,225	9,630
Lowest VaR	9	13

The Parent Company's foreign currency exposures emanate from its net open spot and forward FX purchase and sell transactions, and net foreign currency income accumulated over the years of its operations. Foreign currency-denominated deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. In the FCDU books, BSP requires banks to match the foreign currency assets with the foreign currency liabilities. Thus, banks are required to maintain at all times a 100.00% cover for their currency liabilities held through FCDU. The Parent Company follows said regulation as of December 31, 2017, and 2016.

Total foreign currency position is monitored through the daily BSP FX position reports, which are subject to the overbought and oversold limits set by the BSP at 20.00% of unimpaired capital or US$50.00 million, whichever is lower. Internal limits regarding the intraday trading and end-of-day trading positions in FX, which consider the trading desk and the branch FX transactions, are also monitored.

The tables below summarize the exposure to foreign currencies of the Parent Company as of December 31, 2017, and 2016 (amounts in thousands):

	2017		
	USD	Other Currencies	Total
Assets			
Gross FX assets	$737,597	$66,926	$804,523
Contingent FX assets	63,988	384	64,372
	801,585	67,310	868,895
Liabilities			
Gross FX liabilities	741,826	58,334	800,160
Contingent FX liabilities	61,384	13,237	74,621
	803,210	71,571	874,781
Net exposure	($1,625)	($4,261)	($5,886)

	2016		
	USD	Other Currencies	Total
Assets			
Gross FX assets	$743,214	$22,495	$765,709
Contingent FX assets	8,551	2,925	11,476
	751,765	25,420	777,185
Liabilities			
Gross FX liabilities	734,097	27,210	761,307
Contingent FX liabilities	16,925	36	16,961
	751,022	27,246	778,268
Net exposure	$743	($1,826)	($1,083)

The tables below indicate the sensitivity of the currencies which the Parent Company had significant exposures as of December 31, 2017, and 2016 (amounts in millions):

Foreign currency appreciates	2017		
(depreciates)	USD	EUR	SGD
+10.00%	(₱8.11)	(₱10.87)	(₱9.94)
-10.00%	8.11	10.87	9.94

Foreign currency appreciates	2016		
(depreciates)	USD	EUR	SGD
+10.00%	₱3.69	(₱6.50)	(₱3.22)
-10.00%	(3.69)	6.50	3.22

The analysis calculates the effect of a reasonably possible movement of the foreign currency rate against Peso, with all other variables held constant on the statement of income. A negative amount reflects a potential net reduction in statement of income while a positive amount reflects a net potential increase. There is no other impact on the Parent Company's equity other than those already affecting the statements of income.

Market Risk in the Banking Book

Interest rate risk

A critical element of risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Group's net interest income. The short-term nature of its assets and liabilities reduces the exposure of its net interest income to such risks.

The Parent Company employs re-pricing gap analysis on a monthly basis to measure the interest rate sensitivity of its assets and liabilities. The re-pricing gap analysis measures, for any given period, any mismatches between the amounts of interest-earning assets and interest-bearing liabilities that would re-price, or mature (for contracts that do not re-price), during that period. The re-pricing gap is calculated by first distributing the assets and liabilities contained in the Group's statement of financial position into tenor buckets according to the time remaining to the next re-pricing date (or the time remaining to maturity if there is no re-pricing), and then obtaining the difference between the total of the re-pricing (interest rate sensitive) assets and re-pricing (interest rate sensitive) liabilities. If there is a positive gap, there is asset sensitivity which generally means that an increase in interest rates would have a positive effect on the Group's net interest income. If there is a negative gap, this generally means that an increase in interest rates would have a negative effect on net interest income.

The following tables provide for the average interest rates by period of re-pricing (or by period of maturity if there is no re-pricing) of the Group as of December 31, 2017 and 2016:

	2017				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents	1.20%	-	-	-	-
Loans and receivables	4.65%	5.16%	6.05%	9.95%	12.10%
Investment securities	4.04%	-	-	-	4.66%
Financial liabilities:					
Deposit liabilities	2.17%	2.21%	4.35%	2.72%	3.84%
Bills payable	3.17%	-	-	-	-
Subordinated debt	-	-	-	-	5.50%
FCDU					
Financial assets:					
Cash and cash equivalents	1.37%	-	-	-	-
Loans and receivables	3.01%	2.75%	3.70%	3.93%	7.21%
Investment securities	4.91%	-	-	5.40%	4.52%
Financial liabilities:					
Deposit liabilities	1.46%	1.58%	1.69%	1.89%	2.56%

	2016				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents	2.50%	–	–	–	–
Loans and receivables	3.99%	4.60%	4.90%	6.36%	10.64%
Investment securities	2.27%	5.70%	–	–	5.38%
Financial liabilities:					
Deposit liabilities	2.00%	2.44%	1.95%	1.72%	4.09%
Bills payable	1.65%	1.07%	1.11%	1.40%	–
Subordinated debt	–	–	–	–	5.88%
FCDU					
Financial assets:					
Cash and cash equivalents	–	–	–	–	–
Loans and receivables	0.59%	2.90%	3.05%	4.95%	6.13%
Investment securities	3.76%	3.52%	–	–	3.56%
Financial liabilities:					
Deposit liabilities	1.38%	1.69%	1.76%	1.93%	2.69%

The following tables provide for the average interest rates by period of re-pricing (or by period of maturity if there is no re-pricing) of the Parent Company as of December 31, 2017 and 2016:

	2017				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents	1.20%	-	-	-	-
Loans and receivables	4.65%	5.15%	6.01%	10.28%	12.83%
Investment securities	4.04%	-	-	-	4.66%
Financial liabilities:					
Deposit liabilities	2.32%	2.32%	4.37%	2.73%	3.84%
Bills payable	3.17%	-	-	-	-
Subordinated debt	-	-	-	-	5.50%
FCDU					
Financial assets:					
Cash and cash equivalents	1.37%	-	-	-	-
Loans and receivables	3.01%	2.75%	3.70%	3.93%	7.21%
Investment securities	4.91%	-	-	5.40%	4.52%
Financial liabilities:					
Deposit liabilities	1.46%	1.58%	1.69%	1.89%	2.56%

	2016				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents	2.50%	–	–	–	–
Loans and receivables	3.91%	4.59%	4.88%	6.28%	10.91%
Investment securities	2.27%	5.70%	–	–	5.38%
Financial liabilities:					
Deposit liabilities	1.96%	2.59%	1.75%	1.72%	4.09%
Bills payable	1.65%	1.07%	1.11%	1.40%	–
Subordinated debt	–	–	–	–	5.88%
FCDU					
Financial assets:					
Cash and cash equivalents	–	–	–	–	–
Loans and receivables	0.59%	2.90%	3.05%	4.95%	6.13%
Investment securities	3.76%	3.52%	–	–	3.56%
Financial liabilities:					
Deposit liabilities	1.38%	1.69%	1.76%	1.93%	2.69%

The following tables set forth the interest rate re-pricing gap of the Group as of December 31, 2017 and 2016 (amounts in millions):

	2017					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets:						
Cash and cash equivalents	₱12,388	₱-	₱-	₱-	₱-	₱12,388
Loans and receivables	31,973	5,664	4,592	3,755	141,823	187,807
Investment securities	7,245	-	-	52	6,065	13,362
Contingent assets*	-	762	254	-	-	1,016
Total financial assets	51,606	6,426	4,846	3,807	147,888	214,573
Financial liabilities:						
Deposit liabilities	78,072	22,322	7,030	1,877	20,971	130,272
Bills and acceptances payable	4,307	-	-	-	-	4,307
Subordinated debt	-	-	-	-	6,250	6,250
Contingent liabilities**	-	-	-	-	1,016	1,016
Total financial liabilities	82,379	22,322	7,030	1,877	28,237	141,845
Asset-liability gap	(₱30,773)	(₱15,896)	(₱2,184)	₱1,930	₱119,651	₱72,728

* Consist of interest rate swap receivables
** Consist of interest rate swap payables

	2016					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets						
Cash and cash equivalents	₱1,200	₱–	₱–	₱–	₱–	₱1,200
Loans and receivables	21,256	12,683	5,356	3,956	126,995	170,246
Investment securities	5,733	–	321	–	10,141	16,195
Contingent assets*	–	994	–	–	–	994
Total financial assets	28,189	13,677	5,677	3,956	137,136	188,635
Financial liabilities						
Deposit liabilities	99,404	2,657	550	516	16,951	120,078
Bills and acceptances payable	373	472	497	744	–	2,086
Subordinated debt	–	–	–	–	5,000	5,000
Contingent liabilities**	–	–	–	–	994	994
Total financial liabilities	99,777	3,129	1,047	1,260	22,945	128,158
Asset-liability gap	(₱71,588)	₱10,548	₱4,630	₱2,696	₱114,191	₱60,477

* Consist of interest rate swap receivables
** Consist of interest rate swap payables

The following tables set forth the interest rate re-pricing gap of the Parent Company as of December 31, 2017 and 2016 (amounts in millions):

	2017					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets:						
Cash and cash equivalents	₱12,388	₱-	₱-	₱-	₱-	₱12,388
Loans and receivables	31,947	5,643	4,501	3,380	122,204	167,675
Investment securities	7,245	-	-	52	6,065	13,362
Contingent assets*	-	762	254	-	-	1,016
Total financial assets	51,580	6,405	4,755	3,432	128,269	194,441
Financial liabilities:						
Deposit liabilities	65,749	19,783	6,976	1,859	20,972	115,339
Bills and acceptances payable	4,125	-	-	-	-	4,125
Subordinated debt	-	-	-	-	5,000	5,000
Contingent liabilities**	-	-	-	-	1,016	1,016
Total financial liabilities	69,874	19,783	6,976	1,859	26,988	125,480
Asset-liability gap	(₱18,294)	(₱13,378)	(₱2,221)	₱1,573	₱101,281	₱68,961

* Consist of interest rate swap receivables
** Consist of interest rate swap payables

	2016					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets						
Cash and cash equivalents	₱1,200	₱–	₱–	₱–	₱–	₱1,200
Loans and receivables	21,145	12,669	5,340	3,860	115,058	158,072
Investment securities	5,733	–	321	–	10,141	16,195
Contingent assets*	–	994	–	–	–	994
Total financial assets	28,078	13,663	5,661	3,860	125,199	176,461
Financial liabilities						
Deposit liabilities	92,192	1,077	453	498	16,951	111,171
Bills and acceptances payable	373	472	497	744	–	2,086
Subordinated debt	–	–	–	–	5,000	5,000
Contingent liabilities**	–	–	–	–	994	994
Total financial liabilities	92,565	1,549	950	1,242	22,945	119,251
Asset-liability gap	(₱64,487)	₱12,114	₱4,711	₱2,618	₱102,254	₱57,210

* Consist of interest rate swap receivables
** Consist of interest rate swap payables

The Group also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Group's interest income and interest expenses of different parallel changes in the interest rate curve, assuming the parallel change only occurs once and the interest rate curve after the parallel change does not change again for the next twelve months.

The following table sets forth, for the period indicated, the impact of changes in interest rates on the Group's non-trading net interest income (amounts in millions). There is no other impact on the Group's equity other than those already affecting the statements of income.

Change in basis points	2017	2016
+100bps	(₱436.2)	(₱562.5)
-100bps	436.2	562.5

The following table sets forth, for the period indicated, the impact of changes in interest rates on the Parent Company's non-trading net interest income (amounts in millions). There is no other impact on the Parent Company's equity other than those already affecting the statements of income.

Change in basis points	2017	2016
+100bps	(₱296.8)	(₱481.1)
-100bps	296.8	481.1

Market Risk Weighting as of December 31, 2017 and 2016
The table below shows the different market risk-weighted assets (amounts in millions) of the Parent Company using the standardized approach which is based on the standard weight per segment or asset class:

Type of Market Risk Exposure	2017	2016
Interest Rate Exposures	₱3,561	₱5,726
Foreign Exchange Exposures	379	110
	₱3,940	₱5,836

Only the Parent Company has a trading book portfolio.

Operational Risk
Operational risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal, compliance and reputational risks but excludes strategic risk.

Adopting the Basic Indicator Approach below, where computation is based on the 15% of the average gross income for the past three years, it shows the total operational risk-weighted assets of the Group and Parent Company (amounts in millions).

	2017	2016
Group	₱32,159	₱26,313
Parent Company	29,449	24,489

Other Risk Exposures
Group risk exposures other than credit, market, liquidity and operational, while existent, are deemed insignificant relative to the mentioned risks and if taken in isolation. Hence, management of these risks are instead collectively performed and made an integral part of the Group's internal capital adequacy assessment process (ICAAP) and enterprise risk management initiatives.

The last internal capital adequacy assessment results of the Group show that these other risks remain insignificant to pose a threat on the Group's capacity to comply with the minimum capital adequacy prescriptions of 6%, with the buffers, as applicable, and 10% as prescribed by BSP for common equity tier 1 (CET1) and capital adequacy ratio (CAR), respectively.

5. Fair Value Measurement

The following table provides the fair value hierarchy of the Group's and of the Parent Company's assets and liabilities measured at fair value and those for which fair values are required to be disclosed:

	Consolidated				
	2017				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱4,036,019	₱4,036,019	₱4,036,019	₱–	₱–
Private bonds	3,266,802	3,266,802	3,266,802	–	–
Equity securities	10,362	10,362	10,362	–	–
	7,313,183	7,313,183	7,313,183	–	–
Derivative assets	155,089	155,089	–	155,089	–
Financial assets at FVTOCI	2	2	2	–	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	5,246,141	5,259,208	5,259,208	–	–
Private bonds	1,226,081	1,245,409	1,245,409	–	–
	6,472,222	6,504,617	6,504,617	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	60,844,480	59,549,455	–	–	59,549,455
Consumer lending	156,451,031	156,069,557	–	–	156,069,557
Unquoted debt securities	324,323	393,288	–	–	393,288
	217,619,834	216,012,300	–	–	216,012,300
Non-financial assets					
Investment properties	827,578	1,600,838	–	–	1,600,838
Total assets	₱232,387,908	₱231,586,029	₱13,817,802	₱155,089	₱217,613,138
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱174,581	₱174,581	₱–	₱174,581	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	97,280,600	99,245,528	–	–	99,245,528
LTNCD	17,991,295	19,105,283	–	–	19,105,283
	115,271,895	118,350,811	–	–	118,350,811
Subordinated debt	6,211,138	6,854,910	–	–	6,854,910
Total liabilities	₱121,657,614	₱125,380,302	₱–	₱174,581	₱125,205,721

	Consolidated 2016				
			Fair Value		
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱994,086	₱994,086	₱994,086	₱–	₱–
Private bonds	4,263,221	4,263,221	4,263,221	–	–
Equity securities	10,443	10,443	10,443	–	–
	5,267,750	5,267,750	5,267,750	–	–
Derivative assets	167,665	167,665	–	167,665	–
Financial assets at FVTOCI	500	500	500	–	–
(Forward)					
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	₱5,760,891	₱5,746,513	₱5,746,513	₱–	₱–
Private bonds	5,368,618	5,380,441	5,380,441	–	–
	11,129,509	11,126,954	11,126,954	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	61,433,718	59,498,698	–	–	59,498,698
Consumer lending	134,542,360	131,384,147	–	–	131,384,147
Unquoted debt securities	326,601	395,356	–	–	395,356
	196,302,679	191,278,201	–	–	191,278,201
Non-financial assets					
Investment properties	699,667	1,193,483	–	–	1,193,483
Total assets	₱213,567,770	₱209,034,553	₱16,395,204	₱167,665	₱192,471,684
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱194,164	₱194,164	₱–	₱194,164	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	103,112,716	104,417,148	–	–	104,417,148
LTNCD	8,035,283	8,543,046	–	–	8,543,046
	111,147,999	112,960,194	–	–	112,960,194
Subordinated debt	4,969,460	5,682,923	–	–	5,682,923
Total liabilities	₱116,311,623	₱118,837,281	₱–	₱194,164	₱118,643,117

	Parent Company 2017				
			Fair Value		
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱4,036,019	₱4,036,019	₱4,036,019	₱–	₱–
Private bonds	3,266,802	3,266,802	3,266,802	–	–
Equity securities	10,362	10,362	10,362	–	–
	7,313,183	7,313,183	7,313,183	–	–
Derivative assets	155,089	155,089	–	155,089	–
Financial assets at FVTOCI	2	2	2	–	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	5,246,141	5,259,208	5,259,208	–	–
Private bonds	1,226,081	1,245,409	1,245,409	–	–
	6,472,222	6,504,617	6,504,617	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	60,844,480	59,549,455	–	–	59,549,455
Consumer lending	137,053,156	137,185,076	–	–	137,185,076
Unquoted debt securities	324,323	393,288	–	–	393,288
	198,221,959	197,127,819	–	–	197,127,819

(Forward)

	Parent Company 2017				
			Fair Value		
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Non-financial assets					
Investment properties	₱826,138	₱1,599,398	₱–	₱–	₱1,599,398
Total assets	₱212,988,593	₱212,700,108	₱13,817,802	₱155,089	₱198,727,217
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱174,581	₱174,581	₱–	₱174,581	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	97,280,600	99,245,528	–	–	99,245,528
LTNCD	17,991,295	19,105,283	–	–	19,105,283
	115,271,895	118,350,811	–	–	118,350,811
Subordinated debt	4,972,572	5,484,820	–	–	5,484,820
Total liabilities	₱120,419,048	₱124,010,212	₱–	₱174,581	₱123,835,631

	Parent Company 2016				
			Fair Value		
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱994,086	₱994,086	₱994,086	₱–	₱–
Private bonds	4,263,221	4,263,221	4,263,221	–	–
Equity securities	10,443	10,443	10,443	–	–
	5,267,750	5,267,750	5,267,750	–	–
Derivative assets	167,665	167,665	–	167,665	–
Financial assets at FVTOCI	500	500	500	–	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	5,760,891	5,746,513	5,746,513	–	–
Private bonds	5,368,618	5,380,441	5,380,441	–	–
	11,129,509	11,126,954	11,126,954	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	61,433,718	59,498,698	–	–	59,498,698
Consumer lending	122,796,226	119,735,371	–	–	119,735,371
Unquoted debt securities	326,601	395,356	–	–	395,356
	184,556,545	179,629,425	–	–	179,629,425
Non-financial assets					
Investment properties	698,970	1,192,721	–	–	1,192,721
Total assets	₱201,820,939	₱197,385,015	₱16,395,204	₱167,665	₱180,822,146
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱194,164	₱194,164	₱–	₱194,164	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	103,112,716	104,417,148	–	–	104,417,148
LTNCD	8,035,283	8,543,046	–	–	8,543,046
	111,147,999	112,960,194	–	–	112,960,194
Subordinated debt	4,969,460	5,682,923	–	–	5,682,923
Total liabilities	₱116,311,623	₱118,837,281	₱–	₱194,164	₱118,643,117

In 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

COCI, due from BSP and other banks and IBLR - The carrying amounts approximate fair values due to the short-term nature of these accounts. IBLR consist mostly of overnight deposits and floating rate placements.

Loans and receivables - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables.

Debt securities - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using the discounted cash flow methodology.

Equity securities - Fair values of quoted equity securities are based on quoted market prices.

Derivative instruments - Fair values of derivative instruments, mainly currency forwards and swaps and interest rate swaps, are valued using a valuation technique with market observable inputs. The valuation technique applied includes forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, yield curves of the respective currencies and interest rate curves prevailing at the statement of financial position date. For futures, these are valued considering the prevailing futures prices on the exchange as of the statement of financial position date.

Liabilities - The fair values of liabilities approximate their carrying amounts due to either the demand nature or the relatively short-term maturities of these liabilities except for time deposit liabilities, LTNCD and subordinated debt whose fair values are estimated using the discounted cash flow methodology using the Parent Company's incremental borrowing rates for similar borrowings with maturities consistent with those for the liability being valued.

Derivative Financial Instruments
The Parent Company's freestanding derivative financial instruments, which mainly consist of foreign currency forwards, foreign currency swaps, US Treasury futures and interest rate swaps, are transactions not designated as accounting hedges. The tables below set out information about the Parent Company's derivative financial instruments and their related fair values as of
December 31, 2017 and 2016:

Interest Rate Swaps	2017	2016
Notional amount	$20,000	$20,000
Derivative assets	₱152,474	₱167,092
Derivative liabilities	152,142	172,713

Futures	2017	2016
Notional amount	$9,218	$43,057
Derivative assets	₱1,905	₱–
Derivative liabilities	–	19,920

Foreign Currency Forwards and Swaps	2017	2016
Notional amount	$33,418	$2,969
Derivative assets	₱710	₱573
Derivative liabilities	22,439	1,531

The net movements in fair values of all derivative instruments are as follows:

	2017	2016
Derivative assets (liabilities) - net at beginning of year	(₱26,499)	(₱16,264)
Changes in fair value of derivatives	(14,818)	(9,359)
Fair value of settled instruments	21,825	(876)
Derivative assets (liabilities) - net at end of year	(₱19,492)	(₱26,499)

Fair value changes of foreign currency forwards and swaps are recognized as Foreign exchange gain in the statement of income while fair value changes of interest rate swaps and futures are recognized as part of Trading and securities gain (loss) (see Note 8).

6. Segment Reporting

The Group's main operating businesses are organized and managed primarily according to the current organizational structure. Each segment represents a strategic business unit that caters to the Group's identified markets. The Group's business segments are:

(a) Retail banking - this segment mainly covers traditional branch banking products and services such as deposits, back-to-back/emerging market loans and other over-the-counter (OTC) transactions. It likewise caters to the needs of high net-worth clients for alternative investment channels. It includes entire transaction processing, service delivery and infrastructure consisting of the Group's network of branches, automated teller machines as well as its internet banking platform;

(b) Corporate banking - this segment handles lending and trade financing for both large corporations and middle market clients;

(c) Consumer banking - this segment primarily caters to loans for individuals;

(d) Treasury and Trust - this segment consists of Treasury and Trust operations of the Group. Treasury focuses on providing money market, trading and treasury services, as well as the management of the Group's funding operations through debt securities, placements and acceptances with other banks. Trust includes fund management, investment management services, custodianship, administration and collateral agency services, and stock and transfer agency services. In addition, the Parent Company through Trust, provides retail customers with alternative investment opportunities through its unit investment fund products;

The 'Elimination Items' includes the Group's executive office and elimination items related to the Group's segment reporting framework.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented. The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information of the Group as of and for the years ended December 31, 2017, 2016 and 2015 follow (amounts in millions):

2017	Retail Banking	Corporate Banking	Consumer Banking	Treasury and Trust	Elimination Items	Total
Statement of Income						
Net Interest Income:						
Third Party	₱4,692	₱594	₱12,494	₱175	₱496	₱18,451
Intersegment	–	797	–	183	(980)	–
	4,692	1,391	12,494	358	(484)	18,451
Noninterest Income	1,686	198	4,346	(194)	718	6,754
Revenue - Net of Interest Expense	6,378	1,589	16,840	164	234	25,205
Noninterest Expense	(6,009)	(682)	(9,986)	(578)	(1,192)	(18,447)
Income Before Income Tax	369	907	6,854	(414)	(958)	6,758
Provision for Income Tax	(273)	(272)	(1,195)	125	(92)	(1,707)
Net Income for the Year	₱96	₱635	₱5,659	(₱289)	(₱1,050)	₱5,051
Statement of Financial Position						
Total Assets	₱47,868	₱69,462	₱140,855	₱32,665	₱26,793	₱317,643
Total Liabilities	228,246	43,437	3,131	32,563	(28,739)	278,638
Statement of Income						
Depreciation and Amortization	588	32	590	57	129	1,396
Provision for Impairment and Credit Losses	54	64	4,036	–	310	4,464

2016	Retail Banking	Corporate Banking	Consumer Banking	Treasury and Trust	Elimination Items	Total
Statement of Income						
Net Interest Income:						
Third Party	₱3,909	₱661	₱9,380	₱156	₱1,293	₱15,399
Intersegment	6	692	–	–	(698)	–
	3,915	1,353	9,380	156	595	15,399
Noninterest Income	1,280	110	3,659	622	505	6,176
Revenue - Net of Interest Expense	5,195	1,463	13,039	778	1,100	21,575
Noninterest Expense	(5,429)	(715)	(9,424)	(244)	(1,621)	(17,433)
Income Before Income Tax	(234)	748	3,615	534	(521)	4,142
Provision for Income Tax	(10)	(224)	(644)	(160)	304	(734)
Net Income for the Year	(₱244)	₱524	₱2,971	₱374	(₱217)	₱3,408
Statement of Financial Position						
Total Assets	₱48,752	₱69,057	₱109,712	₱21,676	₱42,621	₱291,818
Total Liabilities	226,139	42,220	4,129	10,806	(25,926)	257,368
Statement of Income						
Depreciation and Amortization	585	22	420	10	113	1,150
Provision for Impairment and Credit Losses	17	158	4,807	(7)	717	5,692

2015	Retail Banking	Corporate Banking	Consumer Banking	Treasury and Trust	Elimination Items	Total
Statement of Income						
Net Interest Income:						
Third Party	₱3,207	₱719	₱7,804	₱52	₱558	₱12,340
Intersegment	3	364	–	–	(367)	–
	3,210	1,083	7,804	52	191	12,340
Noninterest Income	942	92	2,889	(74)	127	3,976
Revenue - Net of Interest Expense	4,152	1,175	10,693	(22)	318	16,316
Noninterest Expense	(4,903)	(734)	(7,164)	(272)	(580)	(13,653)
Income Before Income Tax	(751)	441	3,529	(294)	(262)	2,663
Provision for Income Tax	–	–	–	–	(659)	(659)
Net Income for the Year	(₱751)	₱441	₱3,529	(₱294)	(₱921)	₱2,004
Statement of Financial Position						
Total Assets	₱40,431	₱67,353	₱76,798	₱26,066	₱22,208	₱232,856
Total Liabilities	174,295	24,846	2,056	11,796	(11,539)	201,454
Statement of Income						
Depreciation and Amortization	570	18	280	12	77	957
Provision for Impairment and Credit Losses	18	258	3,364	4	255	3,899

Noninterest income consists of service charges, fees and commissions, gain on sale of assets, gain on asset foreclosure and dacion transactions, trading and securities gain, gain on sale of investment securities at amortized cost, foreign exchange gain, trust income, share in net loss of a joint venture and miscellaneous income. The share in net loss of a joint venture has been presented as part of the elimination items in the Group's segment reporting framework. Noninterest expense consists of compensation and fringe benefits, taxes and licenses, depreciation and amortization, rent, amortization of intangible assets, provision for impairment and credit losses, and miscellaneous expenses.

7. Business Combination

On May 6, 2016, the Parent Company entered into an Asset and Share Transfer Agreement (the Agreement) with Standard Chartered Bank (SCB) and SCMB Overseas Limited for the acquisition of SCB Philippines' retail banking business (including all of SCB Philippines' three branches) and the transfer of 100% ownership of the entities, namely: Quest Marketing and Integrated Services (QMIS) and Assurance Solutions Insurance Agency, Inc. (ASIA) (see Note 10).

The acquisition was approved by the BSP on August 8, 2016. On November 25, 2016, after satisfying all the conditions under the Agreement, the transfer of assets and liabilities was completed.

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

	Final Fair Values	Provisional Fair Values	Increase (Decrease)
Assets			
Cash	₱64,850	₱64,850	₱–
Loans and receivables	5,591,464	5,591,464	–
Property, plant and equipment	11,261	11,261	–
Investment properties	9,171	9,171	–
Intangible asset	64,695	–	64,695
Other assets	174,976	174,976	–
	5,916,417	5,851,722	64,695
Liabilities			
Deposit liabilities	7,324,178	7,324,178	–
Deferred income and bonus points	99,570	99,570	–
Accrued interest payable	2,983	2,983	–
Other liabilities	57,505	57,505	–
	7,484,236	7,484,236	–
Net liabilities assumed	₱1,567,819	₱1,632,514	(₱64,695)

As of November 25, 2016, the gross contractual amounts of the acquired loans and receivables and the estimated contractual amounts not expected to be collected amounted to ₱5.87 billion and ₱0.28 billion, respectively. The estimated amounts not expected to be collected are considered in the determination of the fair value of the receivables.

The fair values of net identifiable liabilities recognized in the 2016 consolidated financial statements were provisional as the identification and valuation of intangible assets were still to be finalized at the time of issuance. As permitted by PFRS 3, the Parent Company finalized its purchase price allocation in 2017 to consider additional information about facts and circumstances that existed as of acquisition date. In finalizing the purchase price allocation, the Parent Company recognized the fair value of core deposits, which is the only identifiable asset to be recognized for the acquisition, amounting to ₱64.70 million and paid an additional consideration of ₱200.52 million.

Goodwill from the acquisition is computed as follows:

Final consideration transferred	₱992,694
Fair value of net liabilities acquired	1,567,819
Final Goodwill	₱2,560,513

The goodwill arising from the acquisition can be attributed mainly to expected synergies that will be brought by SCB's retail banking talent pool and expertise in wealth management.

As the changes to the purchase price allocation were not significant, the Group opted not to restate the 2016 consolidated financial statements.

8. Trading and Investment Securities

The Group and the Parent Company have the following trading and investment securities:

	2017	2016
Financial assets at FVTPL	₱7,313,183	₱5,267,750
Financial assets at FVTOCI	2	500
Investment securities at amortized cost	6,472,222	11,129,509
	₱13,785,407	₱16,397,759

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

	2017	2016
Held-for-trading:		
Government securities	₱4,036,019	₱994,086
Private bonds	3,266,802	4,263,221
Equity securities	10,362	10,443
	₱7,313,183	₱5,267,750

As of December 31, 2017 and 2016, financial assets at FVTPL include net unrealized gains of ₱69.94 million and ₱28.73 million, respectively.

Financial assets at FVTOCI
As of December 31, 2017 and 2016, financial assets at FVTOCI of the Group and of the Parent Company consist of quoted equity securities amounting to ₱0.002 million and ₱0.50 million, respectively. The Group and the Parent Company has designated the above equity investments as at FVTOCI because they are held as long-term investments rather than for trading. In 2017 and 2016, no dividends were recognized on these equity investments and no cumulative gain or loss was transferred within equity.

Investment securities at amortized cost
Investment securities at amortized cost of the Group and of the Parent Company consist of:

	2017	2016
Government securities	₱5,246,141	₱5,760,891
Private bonds	1,226,081	5,368,618
	₱6,472,222	₱11,129,509

Peso-denominated government bonds have effective interest rate of 4.45% in 2017, effective interest rates ranging from 4.45% to 5.70% in 2016 and from 5.70% to 6.02% in 2015. Foreign currency-denominated bonds have effective interest rates ranging from 1.57% to 7.07% in 2017, 2016 and 2015.

In 2017, the Parent Company sold securities carried at amortized cost, with aggregate carrying amount of ₱ 11.44 billion, and recognized a gain amounting to ₱317.44 million. The gain is presented as 'Gain on sale of investment securities at amortized cost' in the statement of income.

In 2016, there were no disposals of investment securities carried at amortized cost.

In 2015, the Parent Company sold securities carried at amortized cost, with aggregate carrying amount of ₱ 4.29 billion, and recognized a gain amounting to ₱287.36 million. The gain is presented as 'Gain on sale of investment securities at amortized cost' in the statement of income.

Judgments made related to the sale of investment securities at amortized cost are disclosed in Note 3.

Interest income on trading and investment securities of the Group and of the Parent Company are as follows:

	2017	2016	2015
Financial assets at FVTPL	₱315,107	₱348,808	₱301,674
Investment securities at amortized cost	507,051	450,821	281,779
	₱822,158	₱799,629	₱583,453

Trading and securities gain (loss) of the Group and of the Parent Company consists of:

	2017	2016	2015
Financial assets at FVTPL	₱45,871	₱721,035	(₱62,397)
US Treasury futures (Note 5)	22,665	12,379	334
Interest rate swaps (Note 5)	(4,563)	1,085	(35,027)
	₱63,973	₱734,499	(₱97,090)

9. Loans and Receivables

Loans and receivables consist of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Receivables from customers:				
Corporate lending	₱61,783,176	₱62,799,904	₱61,783,176	₱62,799,904
Consumer lending	154,865,531	133,191,105	134,755,437	120,703,579
	216,648,707	195,991,009	196,538,613	183,503,483
Unamortized premium	6,818,183	5,806,666	7,187,216	6,309,270
	223,466,890	201,797,675	203,725,829	189,812,753
Unquoted debt securities:				
Government securities	49,592	45,954	49,592	45,954
Private bonds	353,696	359,402	343,696	349,402
	403,288	405,356	393,288	395,356
Other receivables:				
Accrued interest receivable	1,983,777	1,936,025	1,768,423	1,809,971
Accounts receivable	467,580	1,132,955	521,843	1,214,212
Sales contracts receivable	147,261	176,648	147,261	176,648
	2,598,618	3,245,628	2,437,527	3,200,831
	226,468,796	205,448,659	206,556,644	193,408,940
Allowance for credit and impairment losses (Note 15)	(6,334,109)	(6,572,971)	(5,958,873)	(6,314,427)
	₱220,134,687	₱198,875,688	₱200,597,771	₱187,094,513

Gross credit card receivables under consumer lending amounted to ₱28.37 billion and ₱28.06 billion as of December 31, 2017 and 2016, respectively.

Receivables from customers consist of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Loans and discounts	₱211,439,497	₱191,073,903	₱191,329,403	₱178,588,555
Customers' liabilities under letters of credit/trust receipts	4,479,520	4,114,734	4,479,520	4,114,734
Bills purchased	729,690	802,372	729,690	800,194
	₱216,648,707	₱195,991,009	₱196,538,613	₱183,503,483

Notes to Financial Statements

In 2016, the Parent Company entered into a sale of receivables agreement with EWRB, whereby the Parent Company will sell to EWRB, on a without recourse basis, certain employee loans of the Parent Company. In 2017 and 2016, the total employee loans sold by the Parent Company amounted to ₱209.79 million and ₱392.20 million, respectively. The selling price of the employee loans approximates the fair value at the date of sale. As of December 31, 2017 and 2016, outstanding principal balance of employee loans purchased from the Parent Company, included in Loans and discounts of EWRB, amounted to ₱339.01 million and ₱276.50 million, respectively. In connection with the sale of receivables agreement, the Parent Company and EWRB also entered into an account servicing and collection agreement whereby EWRB agreed to pay service fees equivalent to 0.37% of the loan amounts collected by the Parent Company on behalf of EWRB. The service fees received by the Parent Company (included under Service charges, fees and commission income in the statements of income) amounted to ₱0.73 million and ₱0.48 million in 2017 and 2016, respectively (see Note 27).

In 2013, the Parent Company entered into a purchase of receivables agreement with EWRB, whereby the Parent Company will purchase, on a without recourse basis, certain salary loans of EWRB. In 2017 and 2016, the total salary loans purchased by the Parent Company amounted to ₱17.16 billion and ₱22.74 billion, respectively. The Parent Company's acquisition cost of the salary loans approximate the fair value at the acquisition date. As of December 31, 2017 and 2016, outstanding principal balance of salary loans purchased from EWRB, included in Loans and discounts of the Parent Company, amounted to ₱16.60 billion and ₱17.44 billion, respectively. In connection with the purchase of receivables agreement, the Parent Company and EWRB also entered into an account servicing and collection agreement whereby the Parent Company agreed to pay service fees equivalent to 0.37% of the loan amounts collected by EWRB on behalf of the Parent Company. The service fees paid by the Parent Company to EWRB (included under Miscellaneous expense in the statements of income) amounted to ₱71.25 million, ₱57.46 million and ₱30.57 million in 2017, 2016 and 2015, respectively (see Note 27).

The Parent Company has a memorandum of understanding with Filinvest Land, Inc. (FLI), an entity under common control of FDC, whereby the Parent Company will purchase, on a without recourse basis, installment contracts receivable from FLI. On various dates in 2013 and 2012, several deeds of assignment were executed whereby FLI sold, assigned and transferred without recourse to the Parent Company all the rights, titles and interest in various loan accounts and the related mortgages. In 2013 and 2012, the total receivables purchased by the Parent Company without recourse under the terms of the foregoing assignment agreement amounted to ₱0.27 billion and ₱1.81 billion, respectively. Outstanding receivables purchased included in Loans and discounts amounted to ₱0.23 billion and ₱0.37 billion as of December 31, 2017 and 2016, respectively. The Parent Company and FLI also entered into an account servicing and collection agreement where the Parent Company would pay service fees equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company related to its purchase of installment contracts receivable. The total service fees paid by the Parent Company to FLI amounted to ₱0.93 million, ₱1.52 million and ₱1.95 million in 2017, 2016 and 2015, respectively (see Note 27).

A reconciliation of the allowance for impairment and credit losses per class of loans and receivables for the Group and the Parent Company as of December 31, 2017 and 2016 follows:

	Consolidated			
	2017			
	Corporate Lending	Consumer Lending	Others	Total
At January 1	₱1,368,585	₱4,453,012	₱751,374	₱6,572,971
Provision for impairment and credit losses (Note 15)	71,550	4,009,425	47,928	4,128,903
Write-off and others (Note 15)	(499,982)	(3,231,211)	(636,572)	(4,367,765)
At December 31	₱940,153	₱5,231,226	₱162,730	₱6,334,109
Specific impairment	₱165,174	₱267,542	₱78,966	₱511,682
Collective impairment	774,979	4,963,684	83,764	5,822,427
	₱940,153	₱5,231,226	₱162,730	₱6,334,109
Gross amount of individually impaired loans	₱551,895	₱435,716	₱85,479	₱1,073,090

	Consolidated			
	2016			
	Corporate Lending	Consumer Lending	Others	Total
At January 1	₱1,429,185	₱2,736,128	₱733,094	₱4,898,407
Provision for impairment and credit losses (Note 15)	149,053	4,996,457	99,135	5,244,645
Write-off and others (Note 15)	(209,653)	(3,279,573)	(80,855)	(3,570,081)
At December 31	₱1,368,585	₱4,453,012	₱751,374	₱6,572,971
Specific impairment	₱588,720	₱131,543	₱78,755	₱799,018
Collective impairment	779,865	4,321,469	672,619	5,773,953
	₱1,368,585	₱4,453,012	₱751,374	₱6,572,971
Gross amount of individually impaired loans	₱822,329	₱213,213	₱91,185	₱1,126,727

	Parent Company			
	2017			
	Corporate Lending	Consumer Lending	Others	Total
At January 1	₱1,368,585	₱4,214,224	₱731,618	₱6,314,427
Provision for impairment and credit losses (Note 15)	71,550	3,889,565	35,634	3,996,749
Write-off and others (Note 15)	(499,982)	(3,215,749)	(636,572)	(4,352,303)
At December 31	₱940,153	₱4,888,040	₱130,680	₱5,958,873
Specific impairment	₱165,174	₱–	₱68,966	₱234,140
Collective impairment	774,979	4,888,040	61,714	5,724,733
	₱940,153	₱4,888,040	₱130,680	₱5,958,873
Gross amount of individually impaired loans	₱551,895	₱–	₱85,479	₱637,374

	Parent Company			
	2016			
	Corporate Lending	Consumer Lending	Others	Total
At January 1	₱1,429,185	₱2,463,094	₱731,410	₱4,623,689
Provision for impairment and credit losses (Note 15)	149,053	4,982,125	81,063	5,212,241
Write-off and others (Note 15)	(209,653)	(3,230,995)	(80,855)	(3,521,503)
At December 31	₱1,368,585	₱4,214,224	₱731,618	₱6,314,427
Specific impairment	₱588,720	₱–	₱68,755	₱657,475
Collective impairment	779,865	4,214,224	662,863	5,656,952
	₱1,368,585	₱4,214,224	₱731,618	₱6,314,427
Gross amount of individually impaired loans	₱822,329	₱–	₱91,185	₱913,514

The Group took possession of various properties previously held as collateral with an estimated value of ₱2.60 billion, ₱1.89 billion, and ₱967.97 million in 2017, 2016, and 2015, respectively (see Notes 12 and 14).

The following is a reconciliation of the individual and collective allowances for impairment and credit losses on loans and receivables of the Group and of the Parent Company:

	Consolidated					
	2017			2016		
	Specific Impairment	Collective Impairment	Total	Specific Impairment	Collective Impairment	Total
At January 1	₱799,018	₱5,773,953	₱6,572,971	₱1,045,887	₱3,852,520	₱4,898,407
Provision for impairment and credit losses	191,412	3,937,491	4,128,903	58,612	5,186,033	5,244,645
Write-off and others	(478,748)	(3,889,017)	(4,367,765)	(305,481)	(3,264,600)	(3,570,081)
At December 31	₱511,682	₱5,822,427	₱6,334,109	₱799,018	₱5,773,953	₱6,572,971

	Parent Company					
	2017			2016		
	Specific Impairment	Collective Impairment	Total	Specific Impairment	Collective Impairment	Total
At January 1	₱657,475	₱5,656,952	₱6,314,427	₱808,516	₱3,815,173	₱4,623,689
Provision for impairment and credit losses	71,550	3,925,199	3,996,749	58,612	5,153,629	5,212,241
Write-off and others	(494,885)	(3,857,418)	(4,352,303)	(209,653)	(3,311,850)	(3,521,503)
At December 31	₱234,140	₱5,724,733	₱5,958,873	₱657,475	₱5,656,952	₱6,314,427

Interest income on loans and receivables consist of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Receivables from customers	₱21,075,475	₱17,362,155	₱13,784,421	₱19,258,446	₱16,067,175	₱12,947,424
Unquoted debt securities	8,876	7,572	128,478	8,876	7,572	128,478
Interest accrued on impaired loans	3,147	7,630	7,286	3,147	7,630	7,286
	₱21,087,498	₱17,377,357	₱13,920,185	₱19,270,469	₱16,082,377	₱13,083,188

BSP Reporting

Of the total receivables from customers of the Parent Company as of December 31, 2017, 2016 and 2015, 18.57%, 19.00%, and 21.00%, respectively, are subject to periodic interest repricing. The remaining peso receivables from customers earn annual fixed interest rates ranging from 0.00% to 45.00%, 0.00% to 52.16 %, and 0.50% to 52.16 % in 2017, 2016 and 2015, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 2.75% to 10.00%, 0.90% to 10.00%, and 1.40% to 7.56% in 2017, 2016 and 2015, respectively.

The details of the secured and unsecured receivables from customers of the Group and of the Parent Company follow:

	Consolidated				Parent Company			
	2017		2016		2017		2016	
	Gross Amount	%	Gross Amount	%	Gross Amount	%	Gross Amount	%
Loans secured by:								
Chattel	₱71,729,100	32.10	₱59,524,358	29.50	₱71,729,100	35.21	₱59,524,358	31.36
Real estate	23,418,239	10.48	27,609,755	13.68	23,101,357	11.34	27,517,546	14.50
Hold-out on deposit	5,621,850	2.52	5,623,055	2.79	5,621,850	2.76	5,621,850	2.96
Others	9,155,398	4.09	8,172,074	4.05	9,155,398	4.49	7,895,478	4.16
	109,924,587	49.19	100,929,242	50.02	109,607,705	53.80	100,559,232	52.98
Unsecured	113,542,303	50.81	100,868,433	49.98	94,118,124	46.20	89,253,521	47.02
	₱223,466,890	100.00	₱201,797,675	100.00	₱203,725,829	100.00	₱189,812,753	100.00

Information on the concentration of credit as to industry follows (in millions):

	Consolidated				Parent Company			
	2017		2016		2017		2016	
	Gross Amount	%	Gross Amount	%	Gross Amount	%	Gross Amount	%
Personal consumption	₱140,873	63.04	₱120,870	59.90	₱121,221	59.50	₱109,010	57.43
Wholesale and retail trade	19,875	8.89	18,105	8.97	19,868	9.75	18,086	9.53
Real estate, renting and business activity	19,156	8.57	17,769	8.81	19,142	9.40	17,769	9.36
Financial intermediaries	9,061	4.05	8,472	4.20	9,054	4.44	8,472	4.46
Manufacturing	5,580	2.50	6,065	3.01	5,571	2.73	6,053	3.19
Agriculture, fisheries and forestry	1,128	0.50	2,018	1.00	1,110	0.54	1,956	1.03
Transportation, storage and communications	1,571	0.70	1,687	0.84	1,571	0.77	1,687	0.89
Others	26,223	11.75	26,812	13.27	26,189	12.87	26,780	14.11
	₱223,467	100.00	₱201,798	100.00	₱203,726	100.00	₱189,813	100.00

BSP Circular No. 351 allows banks to exclude from nonperforming classification receivables classified as 'Loss' in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued and that such receivables shall be deducted from the total receivable portfolio for purposes of computing NPLs. Subsequently, the BSP issued BSP Circular No. 772, which requires banks to compute their net NPLs by deducting the specific allowance for credit losses on the total loan portfolio from the gross NPLs. The specific allowance for credit losses shall not be deducted from the total loan portfolio in computing the NPL ratio.

As of December 31, 2017 and 2016, NPLs of the Group and of the Parent Company as reported to the BSP follow:

	Consolidated		Parent Company	
	2017	2016	2017	2015
Gross NPLs	₱8,888,659	₱8,484,054	₱8,405,374	₱8,227,387
Deductions as required by the BSP	(5,428,136)	(3,940,221)	(5,160,594)	(3,880,221)
	₱3,460,523	₱4,543,833	₱3,244,780	₱4,347,166

As of December 31, 2017 and 2016, secured and unsecured NPLs of the Group and of the Parent Company as reported to the BSP follow:

	Consolidated		Parent Company	
	2017	2016	2017	2015
Secured	₱4,082,845	₱4,088,420	₱4,010,290	₱4,007,836
Unsecured	4,805,814	4,395,634	4,395,084	4,219,551
	₱8,888,659	₱8,484,054	₱8,405,374	₱8,227,387

10. Investments in Subsidiaries and Joint Venture

The movements in the investments in subsidiaries of the Parent Company and investment in a joint venture of the Group and the Parent Company follow:

	Investment in Subsidiaries		Investment in a Joint Venture	
	2017	2016	2017	2016
Acquisition cost	₱681,232	₱681,232	₱1,005,000	₱1,005,000
Share in additional capital infusion	–	–	665,000	–
Accumulated share in net income (loss)				
Balance at beginning of year	1,593,317	817,912	(385,667)	(28,713)
Share in net income (loss)	1,181,247	775,405	(449,050)	(356,954)
Balance at end of year	2,774,564	1,593,317	(834,717)	(385,667)
Accumulated share in other comprehensive income				
Balance at beginning of year	1,024	(291)	–	–
Share in remeasurement gain of retirement liability	131	1,315	–	–
Balance at end of year	1,155	1,024	–	–
	₱3,456,951	₱2,275,573	₱835,283	₱619,333

Investments in Subsidiaries

EWRB

The Parent Company's investment cost in EWRB amounted to ₱521.00 million as of December 31, 2017 and 2016. The principal place of business of EWRB is at East West Bank Building, J.P. Laurel Avenue corner Inigo Street, Bajada, Davao City.

EWIB

In 2015, the BSP approved the Parent Company's initial equity investment in EWIB of ₱30.00 million. On July 26, 2015, EWIB was registered with the SEC to operate as an insurance brokerage. In September 2015, EWIB received its license from the Insurance Commission. The principal place of business of EWIB is at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

EWLFC

In 2016, the BSP approved and confirmed the initial equity investment in EWLFC of ₱100.00 million. It was registered with the SEC in October 2016 with secondary license to operate as a financing company in accordance with the Financing Company Act of 1998 and its implementing rules and regulations. The principal place of business of EWLFC is at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

QMIS

In 2016, the Parent Company acquired 100.00% voting shares of QMIS as part of the asset and share transfer agreement for a consideration amounting to ₱19.93 million (see Note 7). QMIS was registered with the SEC in 2007 primarily to engage in providing sales and marketing services. The principal place of business is at 14th Floor, STRATA 2000, F. Ortigas, Jr. Road (Emerald Avenue), Pasig City.

ASIA

In 2016, the Parent Company acquired 100.00% voting shares of ASIA as part of the asset and share transfer agreement for a consideration amounting to ₱10.30 million (see Note 7). ASIA was registered with the SEC in 2012 primarily to engage in general insurance agency business. The principal place of business is at 5th Floor, 6788 Sky Plaza Building, Ayala Avenue, Makati City.

Investment in a Joint Venture

On May 28, 2015, the Parent Company and Ageas entered into a joint venture agreement to form EW Ageas Life. EW Ageas Life, which shall primarily engage in the life insurance business, will be incorporated with a capitalization of ₱2.01 billion and with ultimate ownership interest of the Parent Company of 50% less 1 share. The Parent Company's initial investment amounted to ₱500.00 million. The joint venture agreement provided certain conditions that should be satisfied for the consummation of the agreement, which include among others, obtaining all the required regulatory approvals. In October 2015, the SEC approved the registration of EW Ageas Life. The registered office address of EW Ageas Life is at One World Place, 32nd Street, Bonifacio Global City, Taguig City.

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In November 2015, EW Ageas Life and the Parent Company entered into a twenty-year exclusive distribution agreement. Under the distribution agreement, EW Ageas Life will have exclusive access to the branch network of the Parent Company for the distribution of its insurance products (the exclusive bancassurance access).

In 2016, upon obtaining all the required regulatory approvals from the Insurance Commission and the BSP, the establishment of EW Ageas Life was consummated and the Parent Company received a consideration from Ageas. The consideration attributable to the exclusive bancassurance access was deferred and will be recognized as income over the life of the distribution agreement (see Note 20). The consideration attributed to the investment transaction increased the Parent Company's investment in EW Ageas Life by ₱505.00 million and resulted in a gain on capital transaction of ₱1.005 billion.

In 2017, additional capital aggregating to ₱1.33 billion was contributed to EW Ageas Life. This increased the Parent Company's investment in the joint venture by ₱665.00 million, which was recognized as gain on capital transaction.

There were no dividends received from EW Ageas Life as of December 31, 2017. The joint venture has no contingent liabilities or capital commitments as of December 31, 2017.

11. Property and Equipment

The composition of and movements in the Group's property and equipment follow:

	2017				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
As of January 1	₱59,988	₱1,070,029	₱2,361,293	₱3,363,643	₱6,854,953
Additions	-	22,097	200,867	145,397	368,361
Disposals	(5,353)	(31,650)	(36,231)	-	(73,234)
As of December 31	54,635	1,060,476	2,525,929	3,509,040	7,150,080
Accumulated Depreciation and Amortization					
As of January 1	-	160,017	1,757,107	1,545,983	3,463,107
Depreciation and amortization	-	32,895	284,735	373,650	691,280
Disposals	-	(20,368)	(28,159)	-	(48,527)
As of December 31	-	172,544	2,013,683	1,919,633	4,105,860
Net Book Value	₱54,635	₱887,932	₱512,246	₱1,589,407	₱3,044,220

	2016				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
As of January 1	₱59,988	₱1,060,657	₱2,079,122	₱3,158,407	₱6,358,174
Additions*	-	9,372	329,026	205,236	543,634
Disposals	-	-	(46,855)	-	(46,855)
As of December 31	59,988	1,070,029	2,361,293	3,363,643	6,854,953
Accumulated Depreciation and Amortization					
As of January 1	-	129,403	1,501,044	1,204,558	2,835,005
Depreciation and amortization	-	30,614	300,399	341,425	672,438
Disposals	-	-	(44,336)	-	(44,336)
As of December 31	-	160,017	1,757,107	1,545,983	3,463,107
Net Book Value	₱59,988	₱910,012	₱604,186	₱1,817,660	₱3,391,846

**inclusive of additions acquired from business combination (see Note 7)*

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

	2017				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
As of January 1	₱38,651	₱1,005,664	₱1,995,422	₱3,203,280	₱6,243,017
Additions	-	12,273	149,538	116,374	278,185
Disposals	(5,353)	(31,650)	(28,649)	-	(65,652)
As of December 31	33,298	986,287	2,116,311	3,319,654	6,455,550
Accumulated Depreciation and Amortization					
As of January 1	-	148,925	1,547,128	1,529,770	3,225,823
Depreciation and amortization	-	28,869	213,551	332,520	574,940
Disposals	-	(20,368)	(20,900)	-	(41,268)
As of December 31	-	157,426	1,739,779	1,862,290	3,759,495
Net Book Value	₱33,298	₱828,861	₱376,532	₱1,457,364	₱2,696,055

	2016				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
As of January 1	₱38,651	₱999,212	₱1,789,758	₱3,054,170	₱5,881,791
Additions*	-	6,452	237,954	149,110	393,516
Disposals	-	-	(32,290)	-	(32,290)
As of December 31	38,651	1,005,664	1,995,422	3,203,280	6,243,017
Accumulated Depreciation and Amortization					
As of January 1	-	121,771	1,334,132	1,214,513	2,670,416
Depreciation and amortization	-	27,154	244,699	315,257	587,110
Disposals	-	-	(31,703)	-	(31,703)
As of December 31	-	148,925	1,547,128	1,529,770	3,225,823
Net Book Value	₱38,651	₱856,739	₱448,294	₱1,673,510	₱3,017,194

**inclusive of additions acquired from business combination (see Note 7)*

The net gain on sale recognized by the Group for the disposal of certain property and equipment amounted to ₱10.55 million, ₱3.59 million and ₱5.93 million in 2017, 2016 and 2015, respectively. The net gain on sale recognized by the Parent Company for the disposal of certain property and equipment amounted to ₱7.93 million, ₱2.53 million, and ₱0.90 million in 2017, 2016, and 2015 respectively.

In 2014, the Parent Company sold a parcel of land previously intended for an office site with a carrying value of ₱169.13 million to Filinvest Alabang, Inc. (FAI), an entity under common control of FDC, that resulted in a gain amounting to ₱264.13 million. Under the terms of the sale, the selling price of ₱433.26 million is payable annually for five (5) years until 2019 with a fixed interest rate of 6.00% per annum. As of December 31, 2017 and 2016, the accounts receivable oustanding (included under Loans and receivable in the statements of financial position) amounted to ₱216.63 million and ₱303.28 million, respectively (see Note 27).

As of December 31, 2017 and 2016, the cost of fully depreciated property and equipment still in use by the Group amounted to ₱1.46 billion and ₱1.32 billion, respectively.

As of December 31, 2017 and 2016, the cost of fully depreciated property and equipment still in use by the Parent Company amounted to ₱1.28 billion and ₱1.19 billion, respectively.

12. Investment Properties

The composition of and movements in the Group's investment properties follow:

	2017		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱540,609	₱447,197	₱987,806
Additions	79,786	155,186	234,972
Disposals	(39,862)	(28,787)	(68,649)
At December 31	580,533	573,596	1,154,129
Accumulated Depreciation and Amortization			
At January 1	–	200,637	200,637
Depreciation and amortization	–	48,968	48,968
Disposals	–	(13,996)	(13,996)
At December 31	–	235,609	235,609
Accumulated Impairment Losses (Note 15)			
At January 1	74,476	13,026	87,502
Provision during the year	3,603	9,244	12,847
Disposals	(8,664)	(743)	(9,407)
At December 31	69,415	21,527	90,942
Net Book Value	₱511,118	₱316,460	₱827,578

	2016		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱529,416	₱470,241	₱999,657
Additions*	68,568	115,534	184,102
Disposals	(57,375)	(138,578)	(195,953)
At December 31	540,609	447,197	987,806
Accumulated Depreciation and Amortization			
At January 1	–	252,253	252,253
Depreciation and amortization	–	39,989	39,989
Disposals	–	(91,605)	(91,605)
At December 31	–	200,637	200,637
Accumulated Impairment Losses (Note 15)			
At January 1	5,423	14,368	19,791
Provision during the year	74,398	1,633	76,031
Disposals	(5,345)	(2,975)	(8,320)
At December 31	74,476	13,026	87,502
Net Book Value	₱466,133	₱233,534	₱699,667

**inclusive of additions acquired from business combination (see Note 7).*

The composition of and movements in the Parent Company's investment properties follow:

	2017		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱539,842	₱447,261	₱987,103
Additions	79,474	154,755	234,229
Disposals	(39,862)	(28,787)	(68,649)
At December 31	579,454	573,229	1,152,683
Accumulated Depreciation and Amortization			
At January 1	–	200,631	200,631
Depreciation and amortization	–	48,968	48,968
Disposals	–	(13,996)	(13,996)
At December 31	–	235,603	235,603
Accumulated Impairment Losses (Note 15)			
At January 1	74,476	13,026	87,502
Provision during the year	3,603	9,244	12,847
Disposals	(8,664)	(743)	(9,407)
At December 31	69,415	21,527	90,942
Net Book Value	₱510,039	₱316,099	₱826,138

	2016		
	Land	Buildings and Improvements	Total
Cost			
At January 1	₱528,649	₱470,305	₱998,954
Additions*	68,568	115,534	184,102
Disposals	(57,375)	(138,578)	(195,953)
At December 31	539,842	447,261	987,103
Accumulated Depreciation and Amortization			
At January 1	–	252,247	252,247
Depreciation and amortization	–	39,989	39,989
Disposals	–	(91,605)	(91,605)
At December 31	–	200,631	200,631
Accumulated Impairment Losses (Note 15)			
At January 1	5,423	14,368	19,791
Provision during the year	74,398	1,633	76,031
Disposals	(5,345)	(2,975)	(8,320)
At December 31	74,476	13,026	87,502
Net Book Value	₱465,366	₱233,604	₱698,970

**inclusive of additions acquired from business combination (see Note 7)*

The Group's and the Parent Company's investment properties consist entirely of real estate properties and land improvements acquired in settlement of loans and receivables.

The aggregate fair value of the investment properties of the Group and the Parent Company amounted to ₱1.60 billion and ₱1.19 billion as of December 31, 2017 and 2016, respectively. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties taking into account the economic conditions prevailing at the time the valuations were made.

As of December 31, 2017 and 2016, the carrying values of foreclosed investment properties of the Group and of the Parent Company still subject to redemption period by the borrower amounted to ₱131.77 million and ₱86.90 million, respectively.

Gain on sale recognized by the Group and the Parent Company for the disposal of its foreclosed assets amounted to ₱47.85 million, ₱25.17 million, and ₱55.34 million in 2017, 2016 and 2015, respectively.

Direct operating expenses from investment properties not generating rent income amounted to ₱48.97 million, ₱40.00 million and ₱44.01 million for the Group and the Parent Company in 2017, 2016 and 2015, respectively.

13. Goodwill and Other Intangible Assets

As of December 31, 2017 and 2016, the intangible assets of the Group consist of:

	2017					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1	₱3,741,417	₱2,167,600	₱154,626	₱40,433	₱1,883,643	₱7,987,719
Additions (Note 7)	135,824	–	–	64,695	114,131	314,650
As of December 31	3,877,241	2,167,600	154,626	105,128	1,997,774	8,302,369
Accumulated Amortization						
As of January 1	–	–	33,772	31,671	975,868	1,041,311
Amortization	–	–	4,311	11,052	324,511	339,874
As of December 31	–	–	38,083	42,723	1,300,379	1,381,185
Net Book Value	₱3,877,241	₱2,167,600	₱116,543	₱62,405	₱697,395	₱6,921,184

	2016					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1	₱1,316,728	₱2,167,600	₱154,626	₱40,433	₱1,633,295	₱5,312,682
Additions (Note 7)	2,424,689	–	–	–	250,348	2,675,037
As of December 31	3,741,417	2,167,600	154,626	40,433	1,883,643	7,987,719
Accumulated Amortization						
As of January 1	–	–	29,461	27,628	808,971	866,060
Amortization	–	–	4,311	4,043	166,897	175,251
As of December 31	–	–	33,772	31,671	975,868	1,041,311
Net Book Value	₱3,741,417	₱2,167,600	₱120,854	₱8,762	₱907,775	₱6,946,408

As of December 31, 2017 and 2016, the intangible assets of the Parent Company consist of:

	2017					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1	₱3,717,939	₱2,167,600	₱154,626	₱40,433	₱1,809,440	₱7,890,038
Additions (Note 7)	135,824	-	-	64,695	108,159	308,678
As of December 31	3,853,763	2,167,600	154,626	105,128	1,917,599	8,198,716
Accumulated Amortization						
As of January 1	-	-	33,772	31,671	935,903	1,001,346
Amortization	-	-	4,311	11,052	310,203	325,566
As of December 31	-	-	38,083	42,723	1,246,106	1,326,912
Net Book Value	₱3,853,763	₱2,167,600	₱116,543	₱62,405	₱671,493	₱6,871,804

	2016					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
As of January 1	₱1,293,250	₱2,167,600	₱154,626	₱40,433	₱1,567,135	₱5,223,044
Additions (Note 7)	2,424,689	-	-	-	242,305	2,666,994
As of December 31	3,717,939	2,167,600	154,626	40,433	1,809,440	7,890,038
Accumulated Amortization						
As of January 1	-	-	29,461	27,628	781,219	838,308
Amortization	-	-	4,311	4,043	154,684	163,038
As of December 31	-	-	33,772	31,671	935,903	1,001,346
Net Book Value	₱3,717,939	₱2,167,600	₱120,854	₱8,762	₱873,537	₱6,888,692

Goodwill

The business combination resulting from the Asset and Share Transfer Agreement with SCB in 2016 resulted in goodwill of ₱2.56 billion, which has been allocated to the retail banking business acquired from SCB (see Note 7).

The acquisition of EWRB in 2012 resulted in goodwill amounting ₱23.48 million, which was allocated to the branch operations of EWRB. The acquisition of GBI in 2011 resulted in goodwill amounting to ₱374.00 million. The goodwill was allocated to branch operations of GBI. On October 31, 2013, GBI transferred certain assets and liabilities to EWRB. The assets and liabilities transferred include the branches where the goodwill from the acquisition of GBI had been allocated. The branches coming from GBI were combined with the branch operations of EWRB after the transfer. Consequently, the goodwill from the acquisition of EWRB and GBI amounting to ₱23.48 million and ₱374.00 million, respectively, are now allocated to the branch operations of EWRB, which is now considered as a single CGU for purposes of impairment assessment.

The business combination between the Parent Company and AIG Philam Savings Bank (AIGPASB) Group in 2009 resulted in goodwill amounting to ₱769.04 million, which has been allocated to the auto and credit cards lending unit acquired from the AIGPASB Group.

The business combination between the Parent Company and Ecology Savings Bank (ESBI) in 2003 resulted in goodwill amounting to ₱172.80 million. The entire goodwill was allocated to the 30 branches of ESBI which were transferred to the Parent Company as a single CGU. As of December 31, 2017 and 2016, the carrying amount of goodwill, after impairment recognized in prior years, amounted to ₱150.21 million.

Key assumptions used in value in use calculations

The recoverable amount of the CGUs have been determined based on value in use calculations using cash flow projections based on financial budgets approved by the management covering a five-year period. The VIU calculation for the CGUs are most sensitive to the following assumptions: a) interest margin; b) discount rates; c) market share during the budget period; and d) projected growth rates used to extrapolate cash flows beyond the budget period. Future cash flows were based on historical experience and strategies developed and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities.

Discount rate and growth rate

The discount rate applied reflects the current market assessment of the risk specific to each CGU. In 2017, the discount rates applied to the cash flow projections are 9.25% for AIG and 9.40% for EWRB, SCB and ESBI. In 2016, the discount rates applied to the cash flow projections are 12.34% for AIG and 10.94% for EWRB and ESBI. In 2015, the discount rates applied are 12.25% for AIG and 9.65% for EWRB and ESBI. The growth rate used to extrapolate cash flows beyond the five-year period is 5.00%.

Sensitivity to changes in assumptions

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

Customer Relationship and Core Deposits

The business combination between the Parent Company and AIG Philam Savings Bank (AIGPASB) Group in 2009 resulted in the acquisition of customer relationship and core deposits amounting to ₱154.63 million and ₱40.43 million, respectively.

The business combination between the Parent Company and SCB in 2016 resulted in the acquisition of core deposits amounting to ₱64.70 million (see Note 7).

Branch Licenses

Branch licenses of the Group amounting to ₱2.17 billion represents: one branch license acquired by the Parent Company from the BSP amounting to ₱0.20 million in 2015, 25 branch licenses acquired by the Parent Company from the BSP amounting to ₱505.20 million in 2014, 10 branch licenses acquired by the Parent Company from the BSP amounting to ₱214.80 million in 2013,
42 branch licenses acquired by the Parent Company from the BSP amounting to ₱822.00 million in 2012, and 46 branch licenses acquired by the Parent Company from the acquisition of GBI amounting to ₱625.40 million in 2011.

Branch licenses of the Parent Company amounting to ₱2.17 billion represents: one branch license acquired by the Parent Company from the BSP amounting to ₱0.20 million in 2015, 25 branch licenses acquired by Parent Company from the BSP amounting to ₱505.20 million and 46 branch licenses merged to the Parent Company from GBI amounting to ₱625.40 million in 2014, 10 branch licenses acquired by the Parent Company from the BSP amounting to ₱214.80 million in 2013, and 42 branch licenses acquired by the Parent Company from the BSP amounting to ₱822.00 million in 2012.

Capitalized Software

Capitalized software pertains to computer software licenses and programs acquired by the Group and the Parent Company for its banking operations. Included in the 2017 and 2016 acquisitions are software licenses acquired by the Group for the upgrade of its core banking systems amounting to ₱9.42 million and ₱12.85 million, respectively.

14. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Other repossessed assets	₱884,158	₱1,074,555	₱884,158	₱1,074,555
Prepaid expenses	263,958	208,899	233,044	198,366
Security deposits	250,374	231,711	249,029	231,711
Card acquisition costs	246,622	248,796	246,622	248,796
Derivative assets (Note 5)	155,089	167,665	155,089	167,665
Returned cash and other cash items	99,724	113,301	99,724	113,301
Documentary stamps	67,037	81,049	67,037	81,049
Net plan assets (Note 25)	62,453	-	62,453	-
Miscellaneous	805,906	789,997	773,656	741,072
	2,835,321	2,915,973	2,770,812	2,856,515
Allowance for impairment losses (Note 15)	(492,491)	(441,891)	(492,491)	(441,891)
	₱2,342,830	₱2,474,082	₱2,278,321	₱2,414,624

As of December 31, 2017 and 2016, miscellaneous assets of the Group and the Parent Company include sundry debits and interoffice floats amounting to ₱282.49 million and ₱214.19 million, respectively.

The movements in the allowance for impairment losses on other assets of the Group and the Parent Company follow:

	2017	2016
As of January 1	₱441,891	₱190,735
Provision during the year	322,517	371,547
Reversal of allowance from disposals	(275,183)	(114,033)
Write-off and others	3,266	(6,358)
As of December 31	₱492,491	₱441,891

The movements in other repossessed assets of the Group and the Parent Company follow:

	2017	2016
Cost		
As of January 1	₱1,228,845	₱664,333
Additions	2,362,912	1,707,027
Disposals	(2,514,693)	(1,142,515)
As of December 31	1,077,064	1,228,845
Accumulated Depreciation		
As of January 1	154,290	87,119
Depreciation and amortization	315,986	262,344
Disposals	(277,370)	(195,173)
As of December 31	192,906	154,290
Net Book Value, gross of impairment	884,158	1,074,555
Accumulated Impairment Losses		
As of January 1	141,820	21,378
Provision during the year	234,034	234,475
Disposals	(275,183)	(114,033)
As of December 31	100,671	141,820
Net Book Value, net of impairment	₱783,487	₱932,735

In 2017, loss recognized by the Group and the Parent Company from the disposal of its repossessed assets amounted to ₱2.50 million. In 2016 and 2015, gain recognized by the Group and the Parent Company from the disposal of its repossessed assets amounted to ₱27.36 million and ₱18.77 million, respectively.

15. Allowance for Impairment and Credit Losses

Details of and changes in the allowance for impairment and credit losses follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Balances at the beginning of year:				
Loans and receivables (Note 9)	₱6,572,971	₱4,898,407	₱6,314,427	₱4,623,689
Investment properties (Note 12)	87,502	19,791	87,502	19,791
Other assets (Note 14)	441,891	190,735	441,891	190,735
	7,102,364	5,108,933	6,843,820	4,834,215
Provisions charged to current operations (Notes 9, 12 and 14)	4,464,267	5,692,223	4,332,113	5,659,819
Write-off and others (Notes 9 and 14)	(4,364,499)	(3,576,439)	(4,349,037)	(3,527,861)
Reversal of allowance on disposals of investment properties and other repossessed assets (Notes 12 and 14)	(284,590)	(122,353)	(284,590)	(122,353)
Balances at the end of year:				
Loans and receivables (Note 9)	6,334,109	6,572,971	5,958,873	6,314,427
Investment properties (Note 12)	90,942	87,502	90,942	87,502
Other assets (Note 14)	492,491	441,891	492,491	441,891
	₱6,917,542	₱7,102,364	₱6,542,306	₱6,843,820

16. Deposit Liabilities

BSP Circular No. 753, which took effect on April 6, 2012, promulgated the unification of the statutory/legal and liquidity reserve requirement effective on non-FCDU deposit liabilities to 18.00% and reserve requirement on long-term negotiable certificates of deposits to 3.00%. With the new regulations, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements. This was tantamount to the exclusion of government securities and cash in vault as eligible reserves. On May 8, 2014, BSP Circular 832 took effect which increased the reserve requirements of non-FCDU deposit liabilities from 19.00% to 20.00% effective May 30, 2014. On the other hand, EWRB is required to maintain regular reserves equivalent to 5.00% against demand deposits and 3.00% against savings and time deposits.

As of December 31, 2017 and 2016, the Parent Company and EWRB are in compliance with such regulations.

As of December 31, 2017 and 2016, Due from BSP of the Parent Company amounting to ₱36.21 billion and ₱37.17 billion, respectively, has been set aside as reserves for deposit liabilities, as reported to the BSP.

As of December 31, 2017 and 2016, Due from BSP of EWRB amounting to ₱528.91 million and ₱323.64 million, respectively, has been set aside as reserves for deposit liabilities, as reported to the BSP.

Of the total deposit liabilities of the Parent Company as of December 31, 2017 and 2016, about 43.18% and 52.00%, respectively, are subject to periodic interest repricing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.13% to 5.00% in 2017 and 0.13% to 5.53% in 2016.

The Group's interest expense on deposit liabilities amounted to ₱3.16 billion, ₱2.46 billion and ₱1.84 billion in 2017, 2016, and 2015, respectively. The Parent Company's interest expense on deposit liabilities amounted to ₱2.83 billion in 2017, ₱2.28 billion in 2016 and ₱1.74 billion in 2015.

<u>Long-term Negotiable Certificates of Deposits due 2018 (LTNCD Series 1)</u>
In 2013 and 2012, the Parent Company issued 5.00% fixed coupon rate (average EIR of 4.37%) unsecured LTNCD maturing on May 18, 2018. The first tranche of the LTNCD Series 1 amounting to ₱1.53 billion was issued at a discount on November 23, 2012, and the second to seventh tranches aggregating to ₱3.12 billion were issued at a premium in February to May 2013. The net premium, net of debt issue costs, related to the issuance of the LTNCD Series 1 in 2013 and 2012 amounted to ₱107.91 million and ₱10.64 million, respectively. As of December 31, 2017 and 2016, the outstanding net unamortized premium amounted to ₱8.08 million and ₱27.98 million, respectively.

Long-term Negotiable Certificates of Deposits due 2019 (LTNCD Series 2)
In 2013, the Parent Company issued 3.25% fixed coupon rate (average EIR of 3.48%) unsecured LTNCD maturing on June 9, 2019. The first to third tranches of the LTNCD Series 2 aggregating to ₱0.74 billion were issued in December 2013. The discount, net of debt issue costs, related to the issuance of the LTNCD Series 2 in 2013 amounted to ₱8.42 million. The fourth and fifth tranches of the LTNCD Series 2 aggregating to ₱1.74 billion were issued in February and April 2014, respectively. The discount, net of debt issue costs, related to the issuance of the LTNCD Series 2 in 2014 amounted to ₱85.05 million. As of December 31, 2017 and 2016, the outstanding net unamortized discount amounted to ₱29.49 million and ₱49.19 million, respectively.

Long-term Negotiable Certificates of Deposits due 2020 (LTNCD Series 3)
In 2014, the Parent Company issued 4.50% fixed coupon rate (average EIR of 4.42%) unsecured LTNCD maturing on April 24, 2020. The first tranche of the LTNCD Series 3 amounting to ₱0.93 billion was issued in October 2014. The discount, net of debt issue costs, related to the issuance of the LTNCD Series 3 in 2014 amounted to ₱4.63 million. As of December 31, 2017 and 2016, the outstanding net unamortized discount amounted to ₱1.81 million and ₱2.65 million, respectively.

Long-term Negotiable Certificates of Deposits due 2022
In 2017, the Parent Company issued 4.00% fixed coupon rate (average EIR of 4.10%) unsecured LTNCD maturing on September 21, 2022. The first tranche of the LTNCD amounting to ₱2.70 billion was issued in March 2017. The second to fifth tranches of the LTNCD aggregating to ₱7.30 billion were issued in April to August 2017. The debt issue costs related to the issuance of the LTNCD in 2017 amounted to ₱49.94 million. As of December 31, 2017, the outstanding unamortized debt issue cost amounted to ₱44.63 million.

The movements in unamortized net discount as of December 31, 2017 and 2016 follow:

	2017	2016
Beginning balance	₱23,857	₱24,626
Discount arising from issuance during the year	49,940	–
Amortization during the year	(5,952)	(769)
Ending balance	₱67,845	₱23,857

17. Bills and Acceptances Payable

This account consists of:

	2017	2016
Banks and other financial institutions	₱4,124,650	₱2,086,820
Outstanding acceptances	35,045	107,775
	₱4,159,695	₱2,194,595

As of December 31, 2017, no investments in government securities of the Parent Company were pledged with other banks as collateral for borrowings. As of December 31, 2016, investments in government securities of the Parent Company (included in Investment securities at amortized cost in the statements of financial position) with face value of ₱435.45 million and fair value of ₱437.23 million were pledged with other banks as collateral for borrowings amounting to ₱373.22 million, respectively.

Bills payable to the BSP, other banks and other financial institutions are subject to annual interest rates ranging from 1.50% to 3.50% in 2017, 0.01% to 1.65% in 2016, and 0.55% to 1.20% in 2015.

The Group's and the Parent Company's interest expense on bills and acceptances payable amounted to ₱44.13 million in 2017, ₱55.88 million in 2016, and ₱17.26 million in 2015.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Accrued other expenses	₱1,780,466	₱1,307,214	₱1,693,846	₱1,254,109
Accrued interest payable	436,409	393,517	410,046	382,887
Accrued taxes	312,463	166,198	236,978	113,226
	₱2,529,338	₱1,866,929	₱2,340,870	₱1,750,222

Accrued other expenses pertain to accruals of various operating expenses such as rent, utilities, management and professional fees, employee bonus and other expenses.

19. Subordinated Debt

The Group's subordinated debt consists of (in millions):

		Carrying Value	
	Face Value	2017	2016
Lower Tier 2 unsecured subordinated notes due 2025	₱5,000	₱4,973	₱4,969
Lower Tier 2 unsecured subordinated notes due 2021	1,500	–	–
Lower Tier 2 unsecured subordinated notes due 2027	1,250	1,238	–
	₱7,750	₱6,211	₱4,969

The Parent Company's subordinated debt consists of (in millions):

		Carrying Value	
	Face Value	2017	2016
Lower Tier 2 unsecured subordinated notes due 2025	₱5,000	₱4,973	₱4,969
Lower Tier 2 unsecured subordinated notes due 2021	1,500	–	–
	₱6,500	₱4,973	₱4,969

Lower Tier 2 unsecured subordinated notes due 2025
On July 4, 2014, the Parent Company issued 5.50% coupon rate Lower Tier 2 unsecured subordinated notes (the 2025 Notes) with par value of ₱5.00 billion, maturing on January 4, 2025, but callable on January 4, 2020. The 2025 Notes qualify as Tier 2 capital pursuant to BSP Circular No. 781 (Basel III), BSP Circular No. 826 on risk disclosure requirements for the loss absorption features of capital instruments, and other related circulars and issuances of the BSP.

Unless the 2025 Notes are previously redeemed, the 2025 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of January 4, 2025.

From and including the issue date to, but excluding the optional redemption date of January 4, 2020, the 2025 Notes bear interest at the rate of 5.50% per annum and shall be payable quarterly in arrears on January 4, April 4, July 4, and October 4 of each year, which commenced on October 4, 2014. Unless the 2025 Notes are previously redeemed, the interest rate will be reset at the equivalent of the prevailing 5-year PDST-R2 at reset date plus initial spread (i.e., the difference between the initial interest rate and the prevailing 5-year PDST R2 at the pricing date of the initial tranche), commencing on January 4, 2020.

The 2025 Notes are redeemable at the option of the Parent Company, in whole but not in part, on the call option date at 100.00% of the face value plus accrued but unpaid interest, subject to the following conditions:

a. the Parent Company has obtained prior written approval and complied with the requirements of the BSP prior to redemption of the 2025 Notes
b. the 2025 Notes are replaced with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Parent Company, or

c. the Parent Company demonstrates that its capital position is above the minimum capital requirements after redemption is exercised
d. the Parent Company is not in breach of (and would not, following such redemption, be in breach) of applicable regulatory capital requirements (including regulatory capital buffers)
e. the Parent Company is solvent at the time of redemption of the 2025 Notes and immediately thereafter.

Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, subject to compliance with BSP rules and BSP approval, and upon prior approval of the BSP and with prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding 2025 Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the 2025 Notes plus accrued interest at the interest rate relating to the then current interest period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 100.00% of the face value of the 2025 Notes plus accrued interest at the interest rate relating to the then current Interest Period up to but excluding the date of such redemption (the "Redemption Option Date").

The 2025 Notes have a loss absorption feature which means that the 2025 Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Event. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the Parent Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Event is deemed to have occurred when the Parent Company is considered non-viable as determined by the BSP.

Upon the occurrence of a Non-Viability Event, the Parent Company shall write-down the principal amount of the 2025 Notes to the extent required by the BSP, which could go to as low as zero. Additional Tier 1 (AT1) capital instruments shall be utilized first before Tier 2 capital instruments are written-down, until the viability of the Issuer is re-established. In the event the Parent Company does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital.

Loss absorption feature is subject to the following conditions:

a. the principal amount of all series of Tier 1 Loss Absorbing Instruments outstanding having been Written-Down to zero or converted into common equity of the Parent Company (where possible) irrevocably, in accordance with, and to the extent possible pursuant to, their terms (the "Tier 1 Write-Down")
b. the Tier 1 Write-Down having been insufficient to cure the Non-Viability Event
c. the Parent Company giving the relevant Non-Viability Notice to the Public Trustee and the Registrar and Paying Agent

Each Noteholder irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the 2025 Notes and it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

<u>Lower Tier 2 unsecured subordinated notes due 2021</u>
On July 2, 2010, the Parent Company issued 7.50% coupon rate Lower Tier 2 unsecured subordinated note (the 2021 Notes) with par value of ₱1.50 billion, maturing on January 2, 2021 but callable on January 2, 2016, and with step-up in interest if not called.

Unless the 2021 Notes are previously redeemed, the 2021 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of January 2, 2021.

From and including the issue date to, but excluding the optional redemption date of January 2, 2016, the 2021 Notes bear interest at the rate of 7.50% per annum and shall be payable semi-annually in arrears on January 2 and July 2 of each year, commencing on January 2, 2011. Unless the 2021 Notes are previously redeemed, the interest rate from and including January 2, 2016 to, but excluding January 2, 2021, will be reset and such Step-Up interest shall be payable semi-annually in arrears on January 2 and July 2 of each year, commencing on July 2, 2016.

The Step-Up interest rate shall be computed as the higher of:

1. 80.00% of the 5-year on-the-run Philippine Treasury benchmark bid yield (PDST-F) on optional redemption date plus the Step-Up spread of 3.44% per annum. The Step-Up spread is defined as follows:

   Step-Up spread = 150.00% of the difference between the Interest Rate and 80.00% of the 5-year PDST-F on the Pricing Date, preceding the initial Issue Date, equivalent to 3.44% per annum.

2. 150.00% of the difference between the interest rate and the 5-year PDST-F on the pricing date preceding the initial issue date plus the 5-year PDST-F on the optional redemption date.

On January 4, 2016, the Parent Company exercised its call option on the ₱1.50 billion 2021 Notes. The redemption was approved by the Parent Company's BOD on August 27, 2015 and by the BSP on October 8, 2015. The call option amount was the sum of the face value of the Notes, plus accrued interest amounting to ₱1.56 billion, covering the 11th interest period from July 2, 2015 to January 3, 2016 at the interest rate of 7.50%, as of but excluding the call option date.

<u>Lower Tier 2 unsecured subordinated notes due 2027</u>
On February 20, 2017, EWRB issued 5.50% coupon rate Lower Tier 2 unsecured subordinated note (the 2027 Notes) with par value of ₱1.25 billion, maturing on August 20, 2027 but callable on August 20, 2022.

Unless the 2027 Notes are previously redeemed, the 2027 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of August 20, 2027.

From and including the issue date to, but excluding the optional redemption date of August 20, 2022, the 2027 Notes bear interest at the rate of 5.50% per annum and shall be payable quarterly in arrears on February 20, May 20, August 20, and November 20 of each year, which commenced on February 20, 2017. Unless the 2027 Notes are previously redeemed, the interest rate will be reset at the equivalent of the prevailing 5-year PDST-R2 at reset date plus initial spread (i.e., the difference between the initial interest rate and the prevailing 5-year PDST R2 at the pricing date of the initial tranche), commencing on August 20, 2022.

The 2027 Notes are redeemable at the option of EWRB, in whole but not in part, on the call option date at 100.00% of the face value plus accrued but unpaid interest, subject to the following conditions:

a. EWRB has obtained prior written approval and complied with the requirements of the BSP prior to redemption of the 2027 Notes
b. the 2027 Notes are replaced with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of EWRB, or
c. EWRB demonstrates that its capital position is above the minimum capital requirements after redemption is exercised
d. EWRB is not in breach of (and would not, following such redemption, be in breach) of applicable regulatory capital requirements (including regulatory capital buffers)
e. EWRB is solvent at the time of redemption of the 2027 Notes and immediately thereafter.

Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the EWRB may, subject to compliance with BSP rules and BSP approval, and upon prior approval of the BSP and with prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding 2027 Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the 2027 Notes plus accrued interest at the interest rate relating to the then current interest period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 100.00% of the face value of the 2027 Notes plus accrued interest at the interest rate relating to the then current Interest Period up to but excluding the date of such redemption (the "Redemption Option Date").

The 2027 Notes have a loss absorption feature which means that the 2027 Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Event. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the EWRB to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Event is deemed to have occurred when EWRB is considered non-viable as determined by the BSP.

Upon the occurrence of a Non-Viability Event, EWRB shall write-down the principal amount of the 2025 Notes to the extent required by the BSP, which could go to as low as zero. Additional Tier 1 (AT1) capital instruments shall be utilized first before Tier 2 capital instruments are written-down, until the viability of the Issuer is re-established. In the event EWRB does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital.

Loss absorption feature is subject to the following conditions:

a. the principal amount of all series of Tier 1 Loss Absorbing Instruments outstanding having been Written-Down to zero or converted into common equity of EWRB (where possible) irrevocably, in accordance with, and to the extent possible pursuant to, their terms (the "Tier 1 Write-Down")
b. the Tier 1 Write-Down having been insufficient to cure the Non-Viability Event
c. EWRB giving the relevant Non-Viability Notice to the Public Trustee and the Registrar and Paying Agent

Each Noteholder irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed to it by EWRB arising under or in connection with the 2027 Notes and it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

The Group's interest expense on the subordinated debts amounted to ₱333.32 million, ₱278.11 million, and ₱390.70 million in 2017, 2016, and 2015, respectively.

The Parent Company's interest expense on the subordinated debts amounted to ₱273.75 million, ₱278.11 million, and ₱390.70 million in 2017, 2016, and 2015, respectively.

20. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Accounts payable	₱3,336,665	₱3,331,324	₱3,072,913	₱3,136,116
Deferred revenue	1,382,328	1,421,056	1,381,908	1,421,056
Bills purchased-contra	454,400	652,796	454,400	652,796
Derivative liabilities (Note 5)	174,581	194,164	174,581	194,164
Withholding tax payable	109,651	101,438	98,660	92,099
Retention payable	65,919	74,605	65,919	74,605
Payment orders payable	10,918	37,255	10,918	37,255
Marginal deposits and letters of credit	9,044	-	9,044	-
Net retirement obligation (Note 25)	8,808	89,065	–	81,952
Miscellaneous	184,952	785,282	181,694	780,375
	₱5,737,266	₱6,686,985	₱5,450,037	₱6,470,418

Deferred revenue of the Group and the Parent Company includes deferred credit card loyalty points, membership fees and dues as well as the deferred exclusive bancassurance access fee (see Note 10).

21. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of financial position date:

	Consolidated					
	2017			2016		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Financial assets:						
Cash and other cash items	₱6,723,320	₱-	₱6,723,320	₱6,623,761	₱-	₱6,623,761
Due from BSP	39,321,213	-	39,321,213	39,343,143	-	39,343,143
Due from other banks	9,362,992	-	9,362,992	6,970,645	-	6,970,645
IBLR	12,387,633	-	12,387,633	7,502,748	-	7,502,748
Financial assets at FVTPL (Note 8)	7,313,183	-	7,313,183	5,267,750	-	5,267,750
Investments at FVTOCI (Note 8)	-	2	2	-	500	500
Investment securities at amortized cost (Note 8)	-	6,472,222	6,472,222	-	11,129,509	11,129,509
Loans and receivables - gross (Note 9)	96,484,858	123,165,755	219,650,613	107,958,091	91,683,902	199,641,993
Other assets (Note 14)	255,986	312,826	568,812	296,497	231,711	528,208
	171,849,185	129,950,805	301,799,990	173,962,635	103,045,622	277,008,257
Nonfinancial assets:						
Investment in a joint venture (Note 10)	-	835,283	835,283	-	619,333	619,333
Property and equipment (Note 11)	-	3,044,220	3,044,220	-	3,391,846	3,391,846
Investment properties (Note 12)	-	827,578	827,578	-	699,667	699,667
Deferred tax assets (Note 24)	-	1,957,094	1,957,094	-	1,972,465	1,972,465
Goodwill and other intangible assets (Note 13)	-	6,921,184	6,921,184	-	6,946,408	6,946,408
Other assets (Note 14)	929,181	844,837	1,774,018	884,502	1,061,372	1,945,874
	929,181	14,430,196	15,359,377	884,502	14,691,091	15,575,593
	172,778,366	144,381,001	317,159,367	174,847,137	117,736,713	292,583,850

(Forward)

	Consolidated					
	2017			2016		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Allowances for impairment and credit losses on loans and receivables (Note 9)	₱–	(₱6,334,109)	(₱6,334,109)	₱–	(₱6,572,971)	(₱6,572,971)
Unearned premium (Note 9)	–	6,818,183	6,818,183	–	5,806,666	5,806,666
	₱172,778,366	₱144,865,075	₱317,643,441	₱174,847,137	₱116,970,408	₱291,817,545
Financial liabilities:						
Deposit liabilities	₱233,312,300	₱25,414,034	₱258,726,334	₱223,987,952	₱16,233,567	₱240,221,519
Bills and acceptances payable (Note 17)	4,159,695	–	4,159,695	2,194,595	–	2,194,595
Cashiers' checks and demand drafts payable	1,040,545	–	1,040,545	1,059,178	–	1,059,178
Subordinated debt (Note 19)	–	6,211,138	6,211,138	–	4,969,460	4,969,460
Accrued interest, taxes and other expenses (Note 18)	2,216,875	–	2,216,875	1,700,731	–	1,700,731
Other liabilities (Note 20)	3,480,245	82,406	3,562,651	4,410,944	90,732	4,501,676
	244,209,660	31,707,578	275,917,238	233,353,400	21,293,759	254,647,159
Nonfinancial liabilities:						
Income tax payable	233,609	–	233,609	369,508	–	369,508
Accrued interest, taxes and other expenses (Note 18)	312,463	–	312,463	166,198	–	166,198
Other liabilities (Note 20)	785,544	1,389,071	2,174,615	764,253	1,421,056	2,185,309
	1,331,616	1,389,071	2,720,687	1,299,959	1,421,056	2,721,015
	₱245,541,276	₱33,096,649	₱278,637,925	₱234,653,359	₱22,714,815	₱257,368,174

	Parent Company					
	2017			2016		
	Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
Financial assets:						
Cash and other cash items	₱6,690,801	₱–	₱6,690,801	₱6,511,420	₱–	₱6,511,420
Due from BSP	38,792,299	–	38,792,299	39,019,501	–	39,019,501
Due from other banks	9,341,309	–	9,341,309	6,940,924	–	6,940,924
IBLR	12,387,633	–	12,387,633	7,502,748	–	7,502,748
Financial assets at FVTPL (Note 8)	7,313,183	–	7,313,183	5,267,750	–	5,267,750
Investments at FVTOCI (Note 8)	–	2	2	–	500	500
Investment securities at amortized cost (Note 8)	–	6,472,222	6,472,222	–	11,129,509	11,129,509
Loans and receivables - gross (Note 9)	96,313,766	103,055,662	199,369,428	100,771,389	86,328,281	187,099,670
Other assets (Note 14)	255,473	311,482	566,955	296,079	231,711	527,790
	171,094,464	109,839,368	280,933,832	166,309,811	97,690,001	263,999,812
Nonfinancial assets:						
Investment in subsidiaries (Note 10)	–	3,456,951	3,456,951	–	2,275,573	2,275,573
Investment in a joint venture (Note 10)	–	835,283	835,283	–	619,333	619,333
Property and equipment (Note 11)	–	2,696,055	2,696,055	–	3,017,194	3,017,194
Investment properties (Note 12)	–	826,138	826,138	–	698,970	698,970
Deferred tax assets (Note 24)	–	1,864,271	1,864,271	–	1,896,899	1,896,899
Goodwill and other intangible assets (Note 13)	–	6,871,804	6,871,804	–	6,888,692	6,888,692
Other assets (Note 14)	876,738	834,628	1,711,366	835,769	1,051,065	1,886,834
	876,738	17,385,130	18,261,868	835,769	16,447,726	17,283,495
	171,971,202	127,224,498	299,195,700	167,145,580	114,137,727	281,283,307
Allowances for impairment and credit losses on loans and receivables (Note 9)	–	(5,958,873)	(5,958,873)	–	(6,314,427)	(6,314,427)
Unamortized premium (Note 9)	–	7,187,216	7,187,216	–	6,309,270	6,309,270
	₱171,971,202	₱128,452,841	₱300,424,043	₱167,145,580	₱114,132,570	₱281,278,150
(Forward)						
Financial liabilities:						
Deposit liabilities	₱217,876,878	₱25,414,034	₱243,290,912	₱213,891,168	₱16,233,567	₱230,124,735
Bills and acceptances payable (Note 17)	4,159,695	–	4,159,695	2,194,595	–	2,194,595
Cashiers' checks and demand drafts payable	1,040,545	–	1,040,545	1,059,178	–	1,059,178
Subordinated debt (Note 19)	–	4,972,572	4,972,572	–	4,969,460	4,969,460
Accrued interest, taxes and other expenses (Note 18)	2,103,892	–	2,103,892	1,636,996	–	1,636,996
Other liabilities (Note 20)	3,196,748	82,406	3,279,154	4,199,261	90,732	4,289,993
	228,377,758	30,469,012	258,846,770	222,981,198	21,293,759	244,274,957
Nonfinancial liabilities:						
Income tax payable	163,896	–	163,896	260,171	–	260,171
Accrued interest, taxes and other expenses (Note 18)	236,978	–	236,978	113,226	–	113,226
Other liabilities (Note 20)	782,232	1,388,651	2,170,883	759,369	1,421,056	2,180,425
	1,183,106	1,388,651	2,571,757	1,132,766	1,421,056	2,553,822
	₱229,560,864	₱31,857,663	₱261,418,527	₱224,113,964	₱22,714,815	₱246,828,779

22. Equity

Capital Management

The Parent Company actively manages its capital to comply with regulatory requirements, enable growth targets, withstand plausible stress events and be at par with the Parent Company's peers. The primary objective of the Parent Company's capital management is to ensure that it maintains adequate capital to cover risks inherent to its banking activities without prejudice to optimizing shareholders' value.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based Capital Adequacy Ratio (CAR) of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Effective January 1, 2014, the Group complied with BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital only until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures* which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Group should maintain CET1 and CAR levels at the regulatory prescribed minimums, on a solo and consolidated basis, even after the simulated results of a 25.00% write-off to the Group's real estate exposures. These shall be complied with at all times.

The capital-to-risk assets ratio reported to the BSP as of December 31, 2017 and 2016 are shown in the table below:

	Consolidated		Parent Company	
	2017	2016	2017	2016
CET1 capital ratio	11.31%	10.39%	11.02%	10.12%
Tier 1 capital ratio	11.31%	10.39%	11.02%	10.12%
Total capital ratio	14.04%	13.28%	13.45%	13.15%

The composition of the qualifying capital is shown below (amounts in millions):

	Consolidated		Parent Company	
	2017	2016	2017	2016
Qualifying capital:				
Tier 1 capital	₱38,620	₱34,225	₱38,621	₱34,222
CET1 capital	38,620	34,225	38,621	34,222
Less: Required Deductions	9,875	9,615	13,118	11,697
Net Tier 1 Capital	28,745	24,610	25,503	22,525
Tier 2 capital	6,960	6,851	5,640	6,743
Total qualifying capital	₱35,705	₱31,461	₱31,143	₱29,268

Notes to Financial Statements

The capital requirements as of December 31, 2017 and 2016 are shown below (amounts in millions):

	Consolidated		Parent Company	
	2017	2016	2017	2016
Capital requirements:				
Credit risk	₱218,153	₱204,504	₱198,083	₱192,110
Market risk	3,940	6,013	3,940	6,013
Operational risk	32,159	26,313	29,449	24,489
Total capital requirements	₱254,252	₱236,830	₱231,472	₱222,612

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.
Under Basel III, the regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 comprises share capital, surplus (including current year profit), and other comprehensive income (cumulative foreign currency translation and net unrealized gains on financial assets at fair value through other comprehensive income). Required deductions include goodwill, intangible assets, investments in equity, deferred tax assets, defined benefit pension assets and unsecured credit accommodations to DOSRI and subsidiaries. Tier 2 capital comprise of unsecured subordinated debts and general loan loss provision.

Risk-weighted assets are determined by assigning defined risk weights to the statement of financial position exposure and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors. Below is a summary of risk weights and selected exposure types:

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

* Not all inclusive

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For credit-linked notes and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

The risk-weighted CAR is calculated by dividing the sum of its Tier 1 and Tier 2 capital, as defined under BSP regulations, by its risk-weighted assets. The risk-weighted assets, as defined by the BSP regulations, consist of all of the assets on the balance sheet at their respective book values, together with certain other off-balance sheet items, weighted by certain percentages depending on the risks associated with the type of assets. The determination of compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects.

In 2017 and 2016, the Group has complied with the required 10.00% capital adequacy ratio of the BSP.

The Group has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Capital Stock

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares			Amount		
	2017	2016	2015	2017	2016	2015
Authorized:						
Common stock - ₱10.00 par value	1,500,000,000	1,500,000,000	1,500,000,000			
Preferred stock - ₱10.00 par value	500,000,000	500,000,000	500,000,000			
Common stock issued and outstanding:						
Balance at the beginning of the year	1,499,983,610	1,499,983,610	1,128,409,610	₱14,999,836	₱14,999,836	₱11,284,096
Issuance of stock rights	–	–	371,574,000	–	–	3,715,740
Balance at year end	1,499,983,610	1,499,983,610	1,499,983,610	₱14,999,836	₱14,999,836	₱14,999,836

With the approvals by the PSE of the Parent Company's application for listing and by the SEC for the Registration Statement both on March 14, 2012, a total of 245,316,200 common shares, with ₱10.00 par value per share, representing 21.70% of outstanding capital stock, were offered and subscribed through an initial public offering at ₱18.50 per share on April 20 to 26, 2012. The common shares comprise of (a) 141,056,800 new shares issued by the Parent Company by way of a primary offer, and (b) 104,259,400 existing shares offered by FDC, the selling shareholder, pursuant to a secondary offer. Subsequently, on September 5, 2012, 36,715,300 shares under the over-allotment option were exercised at a price of ₱18.50 per share that brought the subscriptions to 25.00% of the outstanding capital stock. The Parent Company's common shares were listed and commenced trading in the PSE on May 7, 2012.

The total proceeds raised by the Parent Company from the sale of primary offer shares amounted to ₱2.61 billion while the net proceeds (after deduction of direct costs related to equity issuance) amounted to ₱2.39 billion.

On January 29, 2015, the BOD approved the common shares rights offering and subsequently, in March 2015, approved the application of the Parent Company to list up to 371,574,000 common shares with par value of ₱10.00 per share to cover its stock rights offering. The offer price was computed based on the volume-weighted average price of the Parent Company's common shares traded in the PSE for each of the 15 consecutive trading days immediately prior to (and excluding) the pricing date, subject to a discount rate of 12.80%. On May 8, 2015, a total of 371,574,000 common shares were listed at the PSE with ₱10.00 par value per share. The total proceeds raised by the Parent Company from the sale of the said shares amounted to ₱8.00 billion while the net proceeds (after deduction of direct costs related to equity issuance) amounted to ₱7.95 billion. The net proceeds were used to invest in securities allowed under BSP regulation and to fuel growth in loans.

Notes to Financial Statements

The portion of the Parent Company's retained earnings pertaining to the accumulated earnings of the subsidiaries amounting to ₱3.13 billion and ₱1.59 billion as of December 31, 2017 and 2016, respectively, are not available for dividend declaration until declared as dividends by the subsidiaries.

Dividend
The Board of Directors of the Parent Company, in its special meeting on April 21, 2017, approved the declaration of cash dividends amounting to ₱0.33 per share or ₱500.00 million to stockholders on record as of May 9, 2017. The dividends were paid on May 29, 2017.

The Board of Directors of the Parent Company, in its special meeting on April 15, 2016, approved the declaration of cash dividends amounting to ₱0.27 per share or ₱400.00 million to stockholders on record as of April 29, 2016. The dividends were paid on May 13, 2016.

23. Income and Expenses

Service charges, fees and commissions consist of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Loans	₱2,236,216	₱1,505,074	₱831,458	₱882,256	₱676,991	₱387,457
Credit Cards	2,105,754	1,784,782	1,857,903	2,105,754	1,784,782	1,857,903
Deposits	626,729	655,709	552,419	622,250	594,101	510,601
Remittances	72,454	38,376	28,704	72,454	38,376	28,704
Others	301,623	117,400	15,698	170,850	94,864	15,697
	₱5,342,776	₱4,101,341	₱3,286,182	₱3,853,564	₱3,189,114	₱2,800,362

Service charges include late payment charges, pre-termination fees on loans and service charges on deposit taking-related transactions.

Fees and commissions include credit card membership fees, bancassurance fees, interchange fees, merchant discounts and other commissions.

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Recovery on written-off assets	₱436,658	₱360,121	₱235,558	₱431,926	₱355,353	₱234,675
Rental income	20,656	26,377	5,226	20,656	26,811	5,379
Dividend income	4,555	6,390	7,108	4,555	6,390	7,108
Others	106,869	76,830	58,547	88,162	68,781	47,086
	₱568,738	₱469,718	₱306,439	₱545,299	₱457,335	₱294,248

Others include referral income earned on insurance premiums charged through credit cards.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Brokerage fees	₱658,021	₱400,064	₱326,214	₱701,215	₱454,648	₱342,268
Insurance	623,093	466,550	351,853	588,793	441,132	334,907
Advertising	601,700	393,923	403,739	588,952	382,113	394,377
Security, messengerial and janitorial services	544,996	543,307	457,280	488,939	487,061	420,577
Technological fees	410,618	411,147	352,010	410,618	411,012	352,010
Service charges, fees and commissions	405,979	325,653	390,087	405,979	325,652	390,170
Postage, telephone, cables and telegram	392,715	359,552	315,743	356,377	332,114	296,584
Transportation and travel	231,722	228,896	213,759	166,931	167,599	170,896
Power, light and water	202,957	187,557	186,725	179,982	168,231	173,234
Management and other professional fees	140,406	169,681	150,243	137,942	165,986	148,309
Repairs and maintenance	124,641	109,685	77,790	107,099	98,864	70,567
Stationery and supplies	115,396	113,165	78,801	91,021	91,813	70,195
Supervision fees	82,702	71,340	42,881	76,614	68,606	41,118
Litigation expenses	71,246	74,940	33,689	71,246	74,940	33,685
Entertainment, amusement and recreation	48,807	56,596	46,653	41,878	50,262	42,852
Others	389,458	275,358	205,844	357,392	262,987	198,022
	₱5,044,457	₱4,187,414	₱3,633,311	₱4,770,978	₱3,983,020	₱3,479,771

Others include payments for subscriptions, membership fees, trainings, donations and contributions, delivery and freight expenses, fines, penalties, other charges and clearing fees.

24. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are subject to percentage and other taxes (presented as Taxes and licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes. Income taxes include corporate income tax, as discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as Provision for income tax in the statements of income.

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

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

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 7.50% final tax. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, Offshore Banking Units (OBUs), local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

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

Provision for income tax consists of:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Current:						
Regular corporate income tax	₱1,649,726	₱1,203,632	₱939,144	₱1,147,297	₱769,876	₱665,314
Final tax	85,473	164,689	58,765	81,981	164,545	58,654
	1,735,199	1,368,321	997,909	1,229,278	934,421	723,968
Deferred	(28,007)	(634,364)	(338,577)	(10,693)	(590,495)	(336,995)
	₱1,707,192	₱733,957	₱659,332	₱1,218,585	₱343,926	₱386,973

The components of the Group's and the Parent Company's net deferred tax assets as of December 31, 2017 and 2016 follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Deferred tax asset on:				
Allowance for impairment and credit losses	₱1,931,228	₱1,986,674	₱1,877,959	₱1,968,413
Accrued expenses and other deferred income	289,190	175,505	252,169	118,174
Accumulated depreciation of assets foreclosed or dacioned	123,114	115,657	123,111	115,655
Deferred bancassurance fee	80,997	85,497	80,997	85,497
Net retirement obligation*	2,642	24,996	–	24,912
Unamortized past service cost	1,347	2,629	1,347	2,629
Unrealized trading loss	195	118	195	118
	2,428,713	2,391,076	2,335,778	2,315,398
Deferred tax liability on:				
Branch licenses acquired from business combination (Note 10)	187,620	187,620	187,620	187,620
Remeasurement of investment in a joint venture	100,750	67,167	100,750	67,167
Gain on asset foreclosure and dacion transactions	82,930	102,697	82,819	102,586
Unrealized foreign exchange gain	44,587	19,244	44,586	19,243
Excess of fair value over carrying value of net assets acquired from business combinations	38,366	41,883	38,366	41,883
Net plan assets	17,366	–	17,366	–
	471,619	418,611	471,507	418,499
	₱1,957,094	₱1,972,465	₱1,864,271	₱1,896,899

*includes DTA acquired from business combination (see Note 7)

As of December 31, 2017 and 2016, the Group did not recognize deferred tax assets on the following temporary differences and NOLCO:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Allowance for credit and impairment losses	₱480,117	₱480,117	₱282,444	₱282,444
NOLCO	324,366	183,948	324,366	183,948

Details of the Group's and the Parent Company's NOLCO are as follows:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2014	₱109,963	₱–	₱–	₱109,963	2017
2015	13,274	–	–	13,274	2018
2016	60,711	–	–	60,711	2019
2017	140,418	–	–	140,418	2020
	₱324,366	₱–	₱–	₱324,366	

Provision for deferred income tax charged directly to OCI during the year for the Group and the Parent Company follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Remeasurements on retirement plan	(₱43,378)	₱9,884	(₱43,321)	₱10,448

The reconciliation of statutory income tax at statutory tax rate to the effective income tax follows:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Statutory income tax	₱2,027,367	₱1,242,514	₱798,980	₱1,880,785	₱1,125,505	₱717,272
Additions to (reductions from) income taxes resulting from the tax effects of:						
Nondeductible expenses	75,607	69,212	115,403	99,472	66,768	113,460
FCDU income	(263,838)	(435,787)	(100,560)	(263,838)	(435,787)	(100,560)
Non-taxable and tax-exempt income	(31,812)	(84,307)	(50,047)	(397,891)	(355,188)	(167,819)
Interest income subjected to final tax net of tax paid	(142,257)	(75,888)	(73,750)	(142,068)	(75,585)	(73,694)
Change in unrecognized deferred tax assets and others	42,125	18,213	(30,694)	42,125	18,213	(101,686)
Effective income tax	₱1,707,192	₱733,957	₱659,332	₱1,218,585	₱343,926	₱386,973

25. Retirement Plan

The existing regulatory framework, RA No. 7641, the *Retirement Pay Law* requires companies with at least ten (10) employees to pay retirement benefits to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Parent Company
The Parent Company has a funded, noncontributory defined benefit retirement plan (the Plan) covering substantially all of its officers and regular employees. Under the Plan, all covered officers and employees are entitled to cash benefits (equivalent to 125.00% of the final monthly salary for every year of service depending on the tenure of the employee) after satisfying certain age and service requirements. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust Division under the supervision of the Retirement Committee.

EWRB
EWRB has a noncontributory defined benefit plan covering substantially all of its officers and regular employees. The benefits are based on years of service and final compensation. The retirement plan provides retirement benefits equal to 100.00% of the final monthly salary for every year of service. As of December 31, 2017 and 2016, the retirement plan of EWRB is unfunded.

QMIS
QMIS does not have a formal retirement plan. As such, QMIS's retirement liability is based on the requirement of RA No. 7641. For purposes of calculating the retirement liability under RA No. 7641, QMIS obtained an actuarial valuation.
The amounts of net retirement obligation (asset) are presented in the statements of financial position as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Other assets (Note 14)	(₱62,453)	₱–	(₱62,453)	₱–
Other liabilities (Note 20)	8,808	89,065	–	81,952
Net retirement obligation (asset)	(₱53,645)	₱89,065	(₱62,453)	₱81,952

Changes in the present value of the defined benefit obligation as of December 31, 2017 and 2016 recognized in the statements of financial position follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Balance at beginning of year	₱776,690	₱645,344	₱769,577	₱643,186
Assumed from business combination	–	4,486	–	–
Current service cost	124,684	112,272	123,429	110,238
Interest cost	40,030	31,701	39,402	31,387
Remeasurement (gains) losses:				
Actuarial losses arising from deviations of experience from assumptions	76	18,778	63	19,732
Actuarial gains arising from changes in financial assumptions	(37,850)	(17,722)	(37,649)	(16,875)
Actuarial gains arising from changes in demographic assumptions	–	(78)	–	–
Benefits paid	(35,164)	(18,091)	(35,164)	(18,091)
Balance at end of year	₱868,466	₱776,690	₱859,658	₱769,577

Changes in the fair value of plan assets are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Balance at beginning of year	₱687,625	₱596,560	₱687,625	₱596,560
Contributions	127,625	112,013	127,625	112,013
Interest income	35,206	29,112	35,206	29,112
Remeasurements	106,819	(31,969)	106,819	(31,969)
Benefits paid	(35,164)	(18,091)	(35,164)	(18,091)
Balance at end of year	₱922,111	₱687,625	₱922,111	₱687,625

The fair value of plan assets by class are as follows:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Cash and cash equivalents	₱126,915	₱107,186	₱126,915	₱107,186
Equity instruments:				
Financial services	586,570	327,219	586,570	327,219
Real estate	5,559	5,510	5,559	5,510
Holding	1	1	1	1
Debt instruments:				
Private securities	141,827	178,015	141,827	178,015
Government securities	58,983	67,050	58,983	67,050
Others	2,256	2,644	2,256	2,644
Fair value of plan assets	₱922,111	₱687,625	₱922,111	₱687,625

The Parent Company's plan assets are carried at fair value. The fair value of investments in equity and debt securities are based on quoted price in the active market. The fair value of other assets and liabilities, which include deposits in banks, accrued interest and other receivables, and trust fee payables, approximate their carrying amount due to the short-term nature of these accounts.

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

Each year, an Asset-Liability Matching Study (ALMS) is performed with the result being analyzed in terms of risk-and-return profiles. As of December 31, 2017 and 2016, the Parent Company's investment strategy consists of 70.00% of equity instruments, 25.00% of debt instruments, and 5.00% cash and 70.00% of debt instruments, 25.00% of equity instruments, and 5.00% cash, respectively.

The Parent Company expects to contribute ₱130.40 million to the plan in 2018.

The cost of defined benefit retirement plans as well as the present value of the benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used are shown below:

	Parent Company		EWRB		QMIS	
	2017	2016	2017	2016	2017	2016
Discount rate						
At January 1	5.12%	4.88%	5.35%	4.68%	5.29%	4.90%
At December 31	5.62%	5.12%	5.54%	5.35%	5.92%	5.29%
Future salary increase rate	5.00%	5.00%	5.00%	5.00%	6.00%	6.00%
Average remaining working life	9.00	17.00	19.00	20.00	17.00	19.00

The sensitivity analysis below on the defined benefit obligation as of December 31, 2017 and 2016 has been determined based on reasonably possible changes of each significant assumption, assuming all other assumptions were held constant.

	Increase in defined benefit obligation			
	Consolidated		Parent Company	
	2017	2016	2017	2016
Decrease in discount rate of 1%	₱80,118	₱77,298	₱78,944	₱75,723
Increase in salary rate increase of 1%	79,825	76,134	78,655	74,578
Improvement in employee turnover by 10%	27,779	28,168	26,811	27,317

The amounts included in 'Compensation and fringe benefits expense' in the statements of income are as follows:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Current service cost	₱124,684	₱112,272	₱103,027	₱123,429	₱110,238	₱102,105
Net interest expense	4,824	2,589	1,186	4,196	2,275	1,141
Expense recognized	₱129,508	₱114,861	₱104,213	₱127,625	₱112,513	₱103,246

26. Leases

The Group leases several premises occupied by its head office and branches. Some leases are subject to annual escalation of 5.00% to 10.00% and for periods ranging from 5 to 15 years, renewable upon mutual agreement of both parties. In 2017, 2016, and 2015, the total rentals of the Group charged to operations amounted to ₱952.34 million, ₱873.12 million, and ₱738.15 million, respectively. In 2017, 2016, and 2015, total rentals charged to operations by the Parent Company amounted to ₱872.94 million, ₱815.40 million, and ₱699.68 million, respectively.

Future minimum annual rentals payable under the aforementioned lease agreements follow:

	Consolidated		Parent Company	
	2017	2016	2017	2016
Within one year	₱793,948	₱685,822	₱731,797	₱595,768
After one year but not more than five years	2,467,312	2,135,346	2,340,126	1,990,871
More than five years	833,033	829,647	797,946	777,442
	₱4,094,293	₱3,650,815	₱3,869,869	₱3,364,081

27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel, and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business.

The amounts and the balances arising from the foregoing significant related party transactions of the Group and of the Parent Company are as follows (amounts in thousands):

	2017		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
Significant investors:			
Loans receivable	₱–	₱5,621,850	Loans granted with a term of seven years, interest of 4.06%, secured, no impairment
Deposit liabilities	–	3,351,334	Earns interest at the respective bank deposit rates
Accrued interest receivable	–	69,734	Interest income accrued on outstanding loans receivable
Accrued expenses	–	4,944	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	–	6,779,983	Unused credit line (omnibus facility) with term of 10 months
Interest income	232,657	–	Interest income on loans receivable
Interest expense	18,410	–	Interest expense on deposit liabilities
Key management personnel:			
Loans receivable	₱–	₱1,500	Loan granted with a term of less than thirty (30) days, interest of 6.50%, secured by deposit, no impairment
Deposit liabilities	–	56,347	Earns interest at the respective bank deposit rates
Acrrued interest receivable	–	1	Interest income accrued on outstanding loans receivable
Interest income	1	–	Interest income on loans receivable
Interest expense	404	–	Interest expense on deposit liabilities

(Forward)

	2017		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
Other related parties:			
Loans receivable	₱–	₱5,159,413	Loans granted with terms ranging from four days to thirteen and a half years, interest ranging from 0.00% to 6.35%, secured by real estate mortgage, no impairment
Receivables purchased	–	231,449	Receivables purchased by the Parent Company from FLI (see Note 9)
Deposit liabilities	–	2,662,378	Earns interest at the respective bank deposit rates
Guarantees and commitments	–	250,000	Unused credit lines
Accrued interest receivable	–	48,514	Interest income accrued on outstanding loans receivable
Accounts receivable	–	216,814	Receivable from FAI on the sale of land by the Parent Company, payable in 5 years, interest of 6.00% (see Note 11) and reimbursement of expenses paid on behalf of EW Ageas Life
Interest income	349,660	–	Interest income on loans receivable
Interest expense	30,480	–	Interest expense on deposit liabilities
Commission fees	18,168	–	Commission fees received from EW Ageas Life
Service fee expense	934	–	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company (see Note 9)
Rent expense	49,383	–	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, FAI and FLI

	2016		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
Significant investors:			
Loans receivable	₱–	₱5,621,850	Loans granted with a term of seven years, interest of 4.06%, secured, no impairment
Deposit liabilities	–	2,784,273	Earns interest at the respective bank deposit rates
Accrued interest receivable	–	65,296	Interest income accrued on outstanding loans receivable
Accrued expenses	–	5,941	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	–	1,378,150	Unused credit line (omnibus facility) with term of 10 months
Interest income	228,247	–	Interest income on loans receivable
Interest expense	8,479	–	Interest expense on deposit liabilities
Key management personnel:			
Deposit liabilities	–	107,786	Earns interest at the respective bank deposit rates
Interest expense	271	–	Interest expense on deposit liabilities
Other related parties:			
Loans receivable	–	5,191,187	Loans granted with terms ranging from three months to thirteen and a half years, interest ranging from 4.00% to 11.52%, 97.00% secured by real estate and chattel mortgage, no impairment
Receivables purchased	–	371,504	Receivables purchased by the Parent Company from FLI (see Note 9)
Deposit liabilities	–	6,417,226	Earns interest at the respective bank deposit rates
Guarantees and commitments	–	12,000	Unused credit lines
Accrued interest receivable	–	4,593	Interest income accrued on outstanding loans receivable
Accounts receivable	–	303,753	Receivable from FAI on the sale of land by the Parent Company, payable in 5 years, interest of 6.00% (see Note 11) and reimbursement of expenses paid on behalf of EW Ageas Life
Interest income	323,445	–	Interest income on loans receivable
Interest expense	51,348	–	Interest expense on deposit liabilities
Commission fees	3,000	–	Commission fees received from EW Ageas Life
Service fee expense	1,518	–	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company (see Note 9)
Rent expense	40,505	–	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, FAI and FLI

The Group's significant investors pertain to FDC, the immediate Parent Company of the Group, and FDC Forex Corporation (a company under common control of FDC).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*. The Group provides banking services to its key management personnel.

Other related parties pertain to the Group's affiliates (subsidiaries of FDC).

The Group and the Parent Company had no outright purchases and outright sale of debt securities with significant shareholders and key management personnel in 2017 and 2016.

No specific provision and allowance for loan losses was recognized by the Group for loans to significant investors, key management personnel and other related parties in 2017, 2016 and 2015.

The Parent Company's subsidiaries have no transactions with related parties outside of the Group. The transactions disclosed above are the same for the Group and the Parent Company.

Parent Company Related Party Transactions

Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions. Details of the Parent Company's subsidiaries are disclosed in Note 10.

In addition to the transactions discussed above, the following are the transactions between the Parent Company and its subsidiaries that are recognized in the Parent Company's statements of financial position and statements of income and eliminated in the consolidated financial statements (amounts in thousands):

	2017		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/ Nature
Subsidiaries:			
Receivables purchased	₱17,160,040	₱16,603,356	Receivables purchased by the Parent Company from EWRB (see Note 9)
Receivable sold	209,790	–	Employee loans sold by the Parent Company to EWRB (see Note 9)
Accounts receivable	–	199,963	Amount collected by EWRB from borrowers on behalf of the Parent Company that remained unremitted and other related expenses shouldered by the Parent Company on behalf of the Subsidiaries
Deposit liabilities	–	728,556	Earns interest at the respective bank deposit rates
Accounts payable	–	27,437	Cash reloading transactions between EWRB and the Parent Company
Interest expense	2,034	–	Interest expense on deposits of EWRB and EWIB
Interest income	1,350	–	Interest income on loans receivable
Service fee expense	71,390	–	Service fees paid to EWRB for account servicing equivalent to 0.37% of loan amounts collected by EWRB on behalf of the Parent Company for the receivables purchased (see Note 9) and for collection of credit card payments
Service fee income	734	–	Service fees paid by EWRB for account servicing equivalent to 0.37% of loan amounts collected by the Parent Company on behalf of EWRB for the receivables sold (see Note 9)
Commission expense	68,073	–	Commission expense paid by the Parent Company to QMIS
Rent income	459	–	Rent of office space leased to subsidiaries

	2016		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/ Nature
Subsidiaries:			
Receivables purchased	₱22,743,646	₱17,439,621	Receivables purchased by the Parent Company from EWRB (see Note 9)
Receivable sold	392,195	–	Employee loans sold by the Parent Company to EWRB (see Note 9)
Accounts receivable	–	97,010	Amount collected by EWRB from borrowers on behalf of the Parent Company that remained unremitted and other related expenses shouldered by the Parent Company on behalf of the Subsidiaries
Deposit liabilities	–	375,589	Earns interest at the respective bank deposit rates
Accounts payable	–	12,246	Cash reloading transactions between EWRB and the Parent Company
Interest expense	678	–	Interest expense on deposits of EWRB and EWIB
Service fee expense	57,460	–	Service fees paid to EWRB for account servicing equivalent to 0.37% of loan amounts collected by EWRB on behalf of the Parent Company for the receivables purchased (see Note 9)
Service fee income	481	–	Service fees paid by EWRB for account servicing equivalent to 0.37% of loan amounts collected by the Parent Company on behalf of EWRB for the receivables sold (see Note 9)
Commission expense	316	–	Commission expense paid by the Parent Company to QMIS

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust Division under the supervision of the Retirement Committee.

The values of the assets of the fund are as follows:

	2017	2016
Cash and cash equivalents	₱126,915	₱107,186
Equity instruments	592,130	332,730
Debt instruments	200,810	245,065
Others	2,256	2,644
	₱922,111	₱687,625

As of December 31, 2017 and 2016, cash and cash equivalents include the savings deposit with the Parent Company amounting to ₱78.79 million and ₱6.20 million, respectively, and debt instruments include investments in the Parent Company's LTNCD amounting to ₱61.62 million and ₱65.03 million, respectively. Equity instruments include investments in the Parent Company's PhilEquity Institutional Feeder Fund amounting to ₱102.87 million, equivalent to 91,734 shares with fair market value of ₱1,129.39 per share as of December 31, 2017, and ₱19.42 million, equivalent to 21,656 shares with fair market value of ₱896.85 per share as of December 31, 2016, the Parent Company's equity securities amounting to ₱274.81 million, equivalent to 8,601,107 common shares with fair market value of ₱31.95 per share as of December 31, 2017, and ₱80.43 million, equivalent to 4,338,337 common shares with fair market value of ₱18.54 per share as of December 31, 2016, and the Parent Company's PSEi Tracker Fund amounting to ₱172.96 million, equivalent to 1,441,203 shares with fair market value of ₱120.01 per share as of December 31, 2017, and ₱186.31 million, equivalent to 1,946,857 shares with fair market value of ₱95.70 per share as of December 31, 2016.

The following are the amounts recognized by the retirement plan arising from its transactions with the Parent Company for the years ended December 31, 2017, 2016 and 2015.

	2017	2016	2015
Trust fees	₱2,623	₱2,577	₱2,899
Interest income on savings deposit	823	726	146
Interest income on investments in LTNCD	2,915	2,921	2,936
Gain (Loss) on investments in equity shares	120,059	(22,452)	(25,892)

Remunerations of Directors and other Key Management Personnel
Total remunerations of key management personnel are as follows:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Short-term employee benefits	₱177,685	₱164,776	₱177,663	₱159,604	₱149,994	₱164,798
Post employment benefits	20,801	15,501	7,723	20,801	15,501	7,723
	₱198,486	₱180,277	₱185,386	₱180,405	₱165,495	₱172,521

Remunerations given to directors which were approved by the Board Remuneration Committee amounted to ₱19.14 million in 2017, ₱12.00 million in 2016 and ₱13.40 million in 2015 for the Group and the Parent Company.

Regulatory Reporting
As required by BSP, the Group discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Total outstanding DOSRI accounts	₱10,787,629	₱10,813,486	₱10,322,185	₱10,787,629	₱10,813,486	₱10,654,933
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Percent of DOSRI accounts granted after the effectivity of BSP Circular No. 423 to total loans	4.700%	5.369%	6.401%	5.143%	5.660%	6.917%
Percent of DOSRI accounts to total loans	4.700%	5.369%	6.402%	5.143%	5.660%	6.917%
Percent of unsecured DOSRI accounts to total DOSRI accounts	0.009%	0.002%	3.928%	0.009%	0.002%	3.805%
Percent of past due DOSRI accounts to total DOSRI accounts	0.000%	0.002%	0.000%	0.000%	0.002%	0.000%

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2017 and 2016, the Parent Company is in compliance with these requirements.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation. As of December 31, 2017 and 2016, the Parent Company is in compliance with this requirement.

28. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacity for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Parent Company. The combined trust and managed funds of the Trust Department of the Parent Company amounted to ₱14.11 billion and ₱11.99 billion as of December 31, 2017 and 2016, respectively.

Government securities with total face value of ₱170.00 million and ₱183.59 million as of December 31, 2017 and 2016, respectively, are deposited with the BSP in compliance with current banking regulations related to the Parent Company's trust functions. These government securities are recorded as part of investment securities at amortized cost as of December 31, 2017 and 2016.

In accordance with BSP regulations, 10.00% of the profits realized by the Parent Company from its trust operations are appropriated to surplus reserves. The yearly appropriation is required until the surplus reserves for trust operations amounts to 20.00% of the Parent Company's authorized capital stock.

The Parent Company's income from its trust operations amounted to ₱46.76 million, ₱18.60 million and ₱17.01 million in 2017, 2016 and 2015, respectively.

Notes to Financial Statements

29. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. The Group does not anticipate material unreserved losses as a result of these transactions.

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

The following is a summary of commitments and contingencies of the Parent Company at their peso-equivalent contractual amounts arising from off-balance sheet items:

	2017	2016
Unused credit line - credit cards	₱42,365,990	₱45,144,348
Trust department accounts (Note 28)	14,109,147	11,988,488
Unused commercial letters of credit	4,571,654	3,279,530
Spot exchange sold	3,064,898	–
Outstanding guarantees	2,927,484	1,842,861
Outward bills for collection	2,285,169	1,542,343
Inward bills for collection	1,929,818	1,266,388
Treasurer/cashier/manager's checks	1,755,856	6,212,417
Forward exchange bought	1,647,093	–
Spot exchange bought	1,566,997	1,140,453
Forward exchange sold	655,975	275,495
Financial futures sold	460,236	2,150,176
Late deposits/payments received	209,047	6,483
Items held for safekeeping	1,723	5,966
Others	63	32

30. Financial Performance

Earnings per share amounts were computed as follows:

		2017	2016	2015
a.	Net income attributable to equity holders of the Parent Company	₱5,050,699	₱3,407,756	₱2,003,935
b.	Weighted average number of outstanding common shares by the Parent Company, including effect of stock rights issued in 2015 (Note 22)	1,499,984	1,499,984	1,387,235
c.	Basic and diluted EPS (a/b)	₱3.37	₱2.27	₱1.44

The Group's basic and diluted earnings per share are equal as there are no potential dilutive shares outstanding.

The following basic ratios measure the financial performance of the Group and of the Parent Company:

	Consolidated			Parent Company		
	2017	2016	2015	2017	2016	2015
Return on average equity	13.98%	10.74%	7.24%	13.98%	10.74%	5.95%
Return on average assets	1.66%	1.33%	0.99%	1.75%	1.38%	0.82%
Net interest margin on average earning assets	7.77%	7.75%	8.00%	7.72%	7.57%	7.84%

31. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7 require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments subject to enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2017

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial Instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Note 5)	₱155,089	₱–	₱155,089	₱152,142	₱–	₱2,947
Total	₱155,089	₱–	₱155,089	₱152,142	₱–	₱2,947

December 31, 2016

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial Instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Note 5)	₱167,665	₱–	₱167,665	₱167,092	₱–	₱573
Total	₱167,665	₱–	₱167,665	₱167,092	₱–	₱573

Financial liabilities

December 31, 2017

Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 5)	₱174,581	₱–	₱174,581	₱152,142	₱–	₱22,439
Total	₱174,581	₱–	₱174,581	₱152,142	₱–	₱22,439

December 31, 2016

Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 5)	₱194,164	₱–	₱194,164	₱167,092	₱–	₱27,072
Bills payable* (Note 17)	437,233	–	437,233	–	437,233	–
Total	₱631,397	₱–	₱631,397	₱167,092	₱437,233	₱27,072

** Included in bills and acceptances payable in the statements of financial position*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. These include amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

32. Notes to Statement of Cash Flows

Transfers from loans and receivables to investment properties as a result of foreclosures amounted to ₱170.36 million, ₱129.21 million and ₱72.07 million in 2017, 2016 and 2015 respectively, for the Group, and ₱169.61 million, ₱129.21 million and ₱72.07 million in 2017, 2016 and 2015 respectively, for the Parent Company. Transfers from loans and receivables to other repossessed assets as a result of foreclosures amounted to ₱2.66 billion, ₱1.78 billion and ₱0.96 billion in 2017, 2016 and 2015 respectively, for the Group and for the Parent Company. Amounts mentioned are exclusive of loss on asset foreclosure and dacion transactions amounting to ₱236.35 million,₱29.45 million and ₱67.12 million in 2017, 2016 and 2015, respectively, for the Group and for the Parent Company.

The table below provides for the changes in liabilities arising from financing activities:

Consolidated				
	January 1, 2017	Cash flows	Others	December 31, 2017
Bills and acceptances payable (Note 17)	₱2,194,595	₱1,965,100	₱–	₱4,159,695
Subordinated debt (Note 19)	4,969,460	1,237,834	3,843	6,211,137
Total liabilities from financing activities	₱7,164,055	₱3,202,934	₱3,843	₱10,370,832

Parent Company				
	January 1, 2017	Cash flows	Others	December 31, 2017
Bills and acceptances payable (Note 17)	₱2,194,595	₱1,965,100	₱–	₱4,159,695
Subordinated debt (Note 19)	4,969,460	–	3,112	4,972,572
Total liabilities from financing activities	₱7,164,055	₱1,965,100	₱3,112	₱9,132,267

Others include the effect of amortization of discount.

33. Events Subsequent to Reporting Period

On February 1, 2018, the BSP approved the following amendments to the Parent Company's Articles of Incorporation, which were approved and confirmed by the Parent Company's BOD at its special meeting on July 13, 2017, to provide flexibility for future capital requirements:

- Increase of the Parent Company's authorized capital stock from ₱20.00 billion to ₱50.00 billion consisting of 4.50 billion common shares with par value of ₱10.00 per share or a total par value of ₱45.00 billion and 500.00 million preferred shares with par value of ₱10.00 per share or a total par value of ₱5.00 billion.
- Declaration of 50.00% stock dividends equivalent to ₱7.50 billion from the Parent Company's unrestricted retained earnings as of December 31, 2016 to cover the required 25.00% minimum subscription and payment for the increase of authorized capital of the Parent Company.

On February 5, 2018, the BSP issued a Certificate of Authority certifying that the amendment is in accordance with law and enabling the Parent Company to register the amendment with the Securities and Exchange Commission (SEC).

34. Approval of the Issuance of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were approved and authorized for issue by the Parent Company's BOD on February 22, 2018.

35. Supplementary Information Required Under Revenue Regulations 15-2010

Supplementary Information under RR No. 15-2010
On November 25, 2010, the BIR issued RR No. 15-2010, requiring the inclusion of information on various taxes paid and accrued during the taxable year in the notes to the financial statements.

The Parent Company reported and/or paid the following types of taxes for the year ended December 31, 2017:

Gross Receipts Tax (GRT)
The Parent Company is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, commissions and discounts from lending activities at 5.00% or 1.00%, depending on the remaining maturities of instruments from which such receipts are derived, and at 7.00% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

Details of the Parent Company's income and GRT accounts in 2017 are as follows:

	Gross Receipts	Gross Receipts Tax
Income derived from lending activities	₱20,949,308	₱991,669
Other income	2,892,382	202,467
	₱23,841,690	₱1,194,136

Other Taxes and Licenses
For the year ended December 31, 2017, other taxes and licenses included in 'Taxes and licenses' consist of:

Documentary stamps taxes	₱460,998
Local taxes	36,526
Fringe benefit taxes	23,529
Others	13,873
	₱534,926

Withholding Taxes
Details of withholding taxes remitted and balances as of December 31, 2017 follow:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱596,592	₱51,799
Expanded withholding taxes	142,242	19,354
Final withholding taxes	385,075	27,507
	₱1,123,909	₱98,660

The Parent Company has no outstanding assessments from the BIR as of December 31, 2017.

Shareholder Information

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This 2017 annual report contains forward-looking statements about future events and expectations. These forward-looking statements include words or phrases such as the Bank or its management or other words or phrases of similar import.

Similarly , statements that describe the Bank's objectives, plans or goals are also forward-looking statements. All such statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement.

Such forward-looking statements are made based on management's current expectations or beliefs, as well as assumptions made by, and information currently available to, management. These statements speak only as at the date of the report and nothing contained in this report is or should be relied upon as a promise or representation as to the future.

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