



March 01, 2019

PHILIPPINE STOCK EXCHANGE, INC.

Disclosure Department
6F PSE Tower One Bonifacio High Street
28th Street corner 5th Avenue Bonifacio Global City
Taguig City

Attention: MS. JANET A. ENCARNACION
Head - Disclosure Department

PHILIPPINE DEALING & EXCHANGE CORP.

37/F Tower 1, The Enterprise Center
6766 Ayala Avenue cor Paseo de Roxas
Makati City

Attention: ATTY. JOSEPH B. EVANGELISTA
Head- Issuer Compliance and Disclosure Department

Gentlemen,

We are pleased to submit the 2018 Audited Financial Statements of China Banking Corporation (CHIB) and its subsidiaries.

For your information and guidance.

Thank you.

Very truly yours,

ALEXANDER C. ESCUCHA

Senior Vice President &
Head, Investor & Corporate Relations Group

CHINA BANKING CORPORATION

8745 Paseo de Roxas corner Villar Street, Makati City, Philippines
Tel. No. 885-5555 • Fax No. 815-3169 • www.chinabank.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

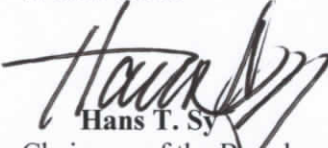
The management of China Banking Corporation (the Bank) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

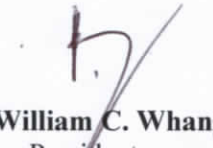
In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the 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 consolidated 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, has audited the consolidated 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.


Hans T. Sy
Chairman of the Board


William C. Whang
President

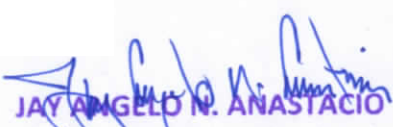

Patrick D. Cheng
Chief Finance Officer

Republic of the Philippines }
City of Makati } S.S.

Signed this 1st day of March 2019, affiants exhibiting to me their Social Security Systems Nos. as follows:

Name
Hans T. Sy
William C. Whang
Patrick D. Cheng

Doc. No.: 149
Page No.: 31
Book No.: 15
Series of: 2019


JAY ANGELO N. ANASTACIO
Notary Public for the City of Makati
Appt. No. M-116 until December 2020
4/F Philcom Building
8755 Paseo de Roxas, Makati City
PTR No. 7341564; 01-07-19; Makati City
IBP No. 059178; 01-07-19; Quezon City
Roll of Attorney's No. 39202

China Banking Corporation and Subsidiaries

Financial Statements
December 31, 2018 and 2017
and for the years ended December 31, 2018,
2017 and 2016

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
China Banking Corporation

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of China Banking Corporation and its subsidiaries (the Group) and the parent company financial statements of China Banking Corporation, which comprise the consolidated and parent company balance sheets as at December 31, 2018 and 2017, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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



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

Applicable to the audit of the Consolidated and Parent Company Financial Statements

Adoption of PFRS 9, Financial Instruments

On January 1, 2018, the Group and the Parent Company adopted Philippine Financial Reporting Standards (PFRS) 9, Financial Instruments. PFRS 9, which replaced PAS 39, Financial Instruments: Recognition and Measurement, provides revised principles for classifying financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Group and the Parent Company adopted the modified retrospective approach in adopting PFRS 9.

3. Classification of Financial Assets

As at January 1, 2018 (the transition date), the Group and the Parent Company classified its financial assets based on its business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. This resulted to transition adjustments that increased (decreased) surplus and other comprehensive income by (₱11 million) and ₱1.68 billion, respectively. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were classified based on the PFRS 9 classification criteria.

The Group's and the Parent Company's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the financial statements.

The disclosures in relation to the adoption of the PFRS 9 classification criteria are included in Note 2 to the financial statements.

Audit Response

We obtained an understanding of the Group's and the Parent Company's contracts review process to establish the contractual cash flow characteristics of debt financial assets, including the identification of standard and non-standard contracts, and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the board approved business models for the Group and the Parent Company's portfolios of financial assets. For significant portfolios, we understood how the business performance is measured and evaluated performance measurement reports.

We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.



4. Expected Credit Losses (ECL)

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

The application of the ECL model increased the allowance for credit losses as of January 1, 2018 by ₱3.59 billion and ₱3.09 billion for Group's and Parent Company's financial statements. Using the ECL model, provision for credit losses of the Group and reversal of credit losses of the Parent Company for 2018 amounted to ₱141.08 million and ₱1.96 million, respectively.

Refer to Notes 2 and 16 of the financial statements or the disclosure on the transition adjustments and details of the allowance for credit losses using the ECL model, respectively.

Audit Response

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

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) verified the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place, (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) inspected the ECL document issued by the third-party service provider engaged by the Group in developing its ECL models to understand the judgements made by both the Group and the Parent Company's determine whether statistical tests were performed to assess model performance; (e) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the system of record and considering management's assumptions regarding future payments, advances, extensions, renewals and modifications; (f) inspected financial information used to derive baseline probability of default; (g) performed simulation of baseline probability of default and tested its conversion to forward-looking probability of default; (h) performed trend analysis of expected default generated by third-party service providers and compared trend with the resulting expected credit loss (i) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (j) verified exposure at default considering outstanding commitments and repayment scheme; and (k) tested the effective interest rate used in discounting the expected loss.

Further, we checked the accuracy and completeness of data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems.



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

Impairment testing of goodwill

Under PFRS, the Group and the Parent Company are required to annually test the amount of goodwill for impairment. As of December 31, 2018, the goodwill recognized in the consolidated and parent company financial statements amounting to ₱222.84 million is attributed to the Parent Company's Retail Banking Business (RBB) segment, while goodwill of ₱616.91 million in the consolidated financial statements is attributed to the subsidiary bank, China Bank Savings, Inc. (CBSI). The impairment assessment process requires significant judgment and is based on assumptions, specifically loan and deposit growth rates, discount rate and the terminal value growth rate.

The Group's disclosures about goodwill are included in Notes 3, 11 and 14 to the financial statements.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include loan and deposit growth rates, discount rate and the terminal value growth rate. We compared the key assumptions used, such as loan and deposit growth rates against the historical performance of the RBB and CBSI, industry/market outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Applicable to the audit of the Consolidated Financial Statements

Recoverability of deferred tax assets

The Group has recognized and unrecognized deferred taxes. The recoverability of deferred tax assets recognized depends on the Group's ability to continuously generate sufficient future taxable income. The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process is complex and judgmental, and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group.

The disclosures in relation to deferred income taxes are included in Notes 3 and 27 to the financial statements.

Audit Response

We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing loan portfolio and deposit growth rates with that of the industry and the historical performance of the Group. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.



Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, 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, 2018 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 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 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 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 Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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



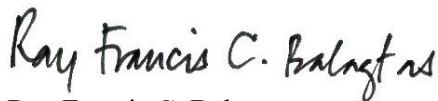
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 37 to the financial statements is presented for purposes 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 China 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
Ray Francis C. Balagtas.

SYCIP GORRES VELAYO & CO.



Ray Francis C. Balagtas

Partner

CPA Certificate No. 108795

SEC Accreditation No. 1510-AR-1 (Group A),

September 18, 2018, valid until September 17, 2021

Tax Identification No. 216-950-288

BIR Accreditation No. 08-001998-107-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 7332523, January 9, 2019, Makati City

March 1, 2019



CHINA BANKING CORPORATION AND SUBSIDIARIES

BALANCE SHEETS

(Amounts in Thousands)

	Consolidated		Parent Company	
	December 31			
	2018	2017	2018	2017
ASSETS				
Cash and Other Cash Items	₱15,639,474	₱12,685,984	₱13,705,304	₱11,160,173
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	101,889,773	98,490,014	95,092,944	91,717,037
Due from Other Banks (Notes 7 and 18)	9,455,447	15,641,476	7,837,894	14,066,620
Interbank Loans Receivable and Securities Purchased under Resale Agreements (Note 8)	11,998,040	18,751,845	8,998,040	17,347,522
Financial Assets at Fair Value through Profit or Loss (Note 9)	7,596,261	16,238,888	6,689,796	16,056,823
Financial Assets at Fair Value through Other Comprehensive Income (Note 9)	10,101,527	—	8,213,010	—
Available-for-Sale Financial Assets (Note 9)	—	46,445,391	—	42,937,083
Investment Securities at Amortized Cost (Note 9)	172,537,036	—	163,824,466	—
Held-to-Maturity Financial Assets (Note 9)	—	65,286,267	—	61,533,493
Loans and Receivables (Notes 10 and 29)	505,804,955	448,970,942	441,432,156	386,554,498
Accrued Interest Receivable	5,697,181	3,718,505	5,126,127	3,189,083
Investment in Subsidiaries (Note 11)	—	—	14,333,567	13,560,733
Investment in Associates (Note 11)	335,092	329,422	335,092	329,422
Bank Premises, Furniture, Fixtures and Equipment (Note 12)	6,450,458	6,875,864	5,265,386	5,464,582
Investment Properties (Note 13)	4,789,602	5,072,156	1,188,797	1,550,503
Deferred Tax Assets (Note 27)	2,514,889	1,778,081	1,739,219	1,297,271
Intangible Assets (Notes 11 and 14)	4,202,599	4,104,032	915,531	800,861
Goodwill (Notes 11 and 14)	839,748	839,748	222,841	222,841
Other Assets (Note 15)	6,219,558	6,218,895	3,332,763	3,481,225
	₱866,071,640	₱751,447,510	₱778,252,933	₱671,269,770
LIABILITIES AND EQUITY				
Liabilities				
Deposit Liabilities (Notes 17 and 29)				
Demand	₱161,239,669	₱154,286,415	₱145,559,564	₱138,929,906
Savings	239,539,817	188,723,947	226,943,962	179,593,323
Time	321,343,811	292,083,031	265,739,836	240,712,750
	722,123,297	635,093,393	638,243,362	559,235,979
Bills Payable (Note 18)	39,826,532	20,118,031	39,826,532	20,118,031
Manager's Checks	2,577,175	2,441,042	2,069,812	1,709,248
Income Tax Payable	477,585	362,041	414,233	339,155
Accrued Interest and Other Expenses (Note 19)	3,842,525	2,627,619	3,342,152	2,283,948
Derivative Liabilities (Note 25)	455,150	267,533	455,150	267,533
Deferred Tax Liabilities (Note 27)	1,231,145	1,161,653	—	—
Other Liabilities (Notes 20 and 23)	7,681,644	5,720,701	6,049,812	3,665,115
	778,215,053	667,792,013	690,401,053	587,619,009
Equity				
Equity Attributable to Equity Holders of the Parent Company				
Capital stock (Note 23)	26,858,998	26,847,717	26,858,998	26,847,717
Capital paid in excess of par value (Note 23)	17,122,625	17,096,228	17,122,625	17,096,228
Surplus reserves (Notes 23 and 28)	4,031,008	926,689	4,031,008	926,689
Surplus (Notes 23 and 28)	40,497,256	40,360,563	40,497,256	40,360,563
Net unrealized gain (loss) on:				
Financial assets at fair value through other comprehensive income (Note 9)	(702,509)	—	(702,509)	—
Available-for-sale financial assets (Note 9)	—	(1,813,280)	—	(1,813,280)
Remeasurement gain on defined benefit asset (Note 24)	117,047	283,763	117,047	283,763
Cumulative translation adjustment	(91,699)	(38,698)	(91,699)	(38,698)
Remeasurement gain (loss) on life insurance reserves	19,154	(12,221)	19,154	(12,221)
	87,851,880	83,650,761	87,851,880	83,650,761
Non-controlling Interest	4,707	4,736	—	—
	87,856,587	83,655,497	87,851,880	83,650,761
	₱866,071,640	₱751,447,510	₱778,252,933	₱671,269,770

See accompanying Notes to Financial Statements.



CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF INCOME

(Amounts in Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
INTEREST INCOME						
Loans and receivables (Notes 10 and 29)	₱28,195,915	₱21,751,647	₱17,889,252	₱23,488,872	₱17,537,017	₱14,122,287
Investments (Note 9)	5,875,928	3,556,110	3,078,081	5,559,557	3,275,025	2,880,919
Financial assets at FVPL	413,323	410,889	204,882	413,323	398,777	179,406
Due from Bangko Sentral ng Pilipinas and other banks and securities purchased under resale agreements (Note 7 and 8)	727,337	820,699	719,414	516,645	634,906	555,788
	35,212,503	26,539,345	21,891,629	29,978,697	21,845,725	17,738,400
INTEREST EXPENSE						
Deposit liabilities (Notes 17 and 29)	11,621,063	6,521,935	4,831,555	9,736,014	5,210,803	3,629,127
Bills payable and other borrowings (Note 18)	665,254	391,007	365,879	665,254	391,007	354,961
	12,286,317	6,912,942	5,197,434	10,401,268	5,601,810	3,984,088
NET INTEREST INCOME	22,926,186	19,626,403	16,694,195	19,577,428	16,243,915	13,754,312
Service charges, fees and commissions (Note 21)	2,777,283	2,441,724	2,123,469	1,529,727	1,394,998	1,319,448
Gain on sale of investment properties	1,015,622	670,612	443,315	925,831	614,587	338,088
Trading and securities gain (loss) - net (Notes 9 and 21)	(271,552)	479,960	918,089	(275,964)	399,760	852,870
Foreign exchange gain - net (Note 25)	215,963	386,015	318,135	187,064	389,692	299,113
Trust fee income (Note 28)	305,753	376,312	330,197	305,338	371,947	326,091
Gain on asset foreclosure and dacion transactions (Note 13)	252,477	157,415	172,480	57,676	71,888	140,747
Share in net income of subsidiaries (Note 11)	—	—	—	695,356	836,004	464,999
Share in net income (losses) of an associate (Note 11)	101,009	73,133	(89,384)	101,009	73,133	(89,384)
Miscellaneous (Notes 21 and 29)	1,261,741	1,516,523	878,445	1,130,134	1,391,657	800,097
TOTAL OPERATING INCOME	28,584,482	25,728,097	21,788,941	24,233,599	21,787,581	18,206,381
Compensation and fringe benefits (Notes 24 and 29)	6,139,001	5,708,948	4,982,934	4,610,265	4,288,096	3,752,229
Taxes and licenses	2,925,870	2,264,025	2,000,404	2,307,948	1,819,331	1,573,887
Occupancy cost (Notes 26 and 29)	2,336,639	2,112,602	1,830,675	1,713,888	1,528,876	1,281,107
Insurance	1,669,618	1,440,153	1,163,507	1,447,890	1,241,575	991,179
Depreciation and amortization (Notes 12, 13 and 14)	1,297,685	1,217,489	1,124,786	947,908	877,240	775,210
Provision for impairment and credit losses (Note 16)	141,076	754,171	850,546	(1,957)	423,922	521,475
Transportation and traveling	484,514	378,703	298,666	370,980	289,903	218,136
Professional fees, marketing and other related services	352,159	312,042	268,394	261,931	222,509	182,275
Entertainment, amusement and recreation	380,166	287,105	242,710	262,489	182,172	146,993
Stationery, supplies and postage	284,436	268,901	241,786	220,651	197,567	193,232
Repairs and maintenance	131,158	104,298	123,025	102,834	69,276	87,734
Miscellaneous (Notes 21 and 29)	2,054,634	1,867,552	1,073,986	1,619,159	1,490,658	941,489
TOTAL OPERATING EXPENSES	18,196,956	16,715,989	14,201,419	13,863,986	12,631,125	10,664,946
INCOME BEFORE INCOME TAX	10,387,526	9,012,108	7,587,522	10,369,613	9,156,456	7,541,435
PROVISION FOR INCOME TAX (Note 27)	2,271,422	1,489,177	1,126,552	2,259,233	1,642,484	1,083,139
NET INCOME	₱8,116,104	₱7,522,931	₱6,460,970	₱8,110,380	₱7,513,972	₱6,458,296
Attributable to:						
Equity holders of the Parent Company (Note 32)	₱8,110,379	₱7,513,972	₱6,458,296			
Non-controlling interest	5,725	8,959	2,674			
	₱8,116,104	₱7,522,931	₱6,460,970			
Basic/Diluted Earnings Per Share (Note 32)	₱3.02	₱2.91	₱2.88			

See accompanying Notes to Financial Statements.



CHINA BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
NET INCOME	₱8,116,104	₱7,522,931	₱6,460,970	₱8,110,380	₱7,513,972	₱6,458,296
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Changes in fair value of:						
Financial assets at fair value through other comprehensive income:						
Fair value (loss) for the year, net of tax	(451,866)	—	—	(381,791)	—	—
Loss taken to profit or loss (Note 21)	2,104	—	—	2,451	—	—
Available-for-sale financial assets:						
Fair value gain for the year, net of tax	—	158,946	449,110	—	113,020	512,562
Gains taken to profit or loss (Note 21)	—	(365,145)	(918,673)	—	(342,146)	(856,031)
Share in changes in other comprehensive income of an associate (Note 11)	(126,713)	(8,049)	(5,457)	(126,713)	(8,049)	(5,457)
Share in changes in other comprehensive income of subsidiaries (Note 11)	—	—	—	(64,109)	35,552	(107,991)
Cumulative translation adjustment	(52,900)	(15,972)	12,455	(58,792)	(29,255)	(3,636)
Items that do not recycle to profit or loss in subsequent periods:						
Share in changes in other comprehensive income of subsidiaries (Note 11)	—	—	—	88,642	20,140	20,397
Remeasurement gain (loss) on defined benefit asset, net of tax (Note 24)	(165,213)	30,149	71,075	(255,359)	9,678	50,560
Remeasurement gain (loss) on life insurance reserves	31,374	(12,221)	—	31,374	(12,221)	—
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(763,214)	(212,292)	(391,490)	(764,297)	(213,281)	(389,596)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	₱7,352,890	₱7,310,639	₱6,069,480	₱7,346,083	₱7,300,691	₱6,068,700
Total comprehensive income attributable to:						
Equity holders of the Parent Company	₱7,346,083	₱7,300,691	₱6,068,700			
Non-controlling interest	6,807	9,948	780			
	₱7,352,890	₱7,310,639	₱6,069,480			

See accompanying Notes to Financial Statements.



CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Consolidated												
	Equity Attributable to Equity Holders of the Parent Company												
	Net Unrealized (Losses) on Financial Assets at Fair Value through Other Comprehensive Income					Net Unrealized Gains (Losses) on Available- for-Sale Financial Assets		Remeasurement Gain on Defined Benefit Asset or Liability		Remeasurement Loss on Life Insurance Reserve		Non- Controlling Interest	
	Capital Stock (Note 23)	Capital Paid in Excess of Par Value (Note 23)	Surplus Reserves (Notes 23 and 28)	Surplus (Notes 23 and 28)	(Note 9)	(Note 9)	(Note 24)	Cumulative Translation Adjustment		Total Equity	(Note 11)	Total Equity	
Balance at January 1, 2018	₱26,847,717	₱17,096,228	₱926,689	₱40,360,563	₱–	(₱1,813,280)	₱283,763	(₱38,698)	(₱12,221)	₱ 83,650,761	₱4,736	83,655,497	
Effect of initial application of PFRS 9 (Note 2)	–	–	2,732,628	(5,372,699)	(126,556)	1,813,280	–	–	–	(953,346)	(6,835)	(960,181)	
Balance at January 1, 2018, as restated	26,847,717	17,096,228	3,659,317	34,987,864	(126,556)	–	283,763	(38,698)	(12,221)	82,697,415	(2,099)	82,695,316	
Total comprehensive income (loss) for the year	–	–	–	8,110,379	(575,953)	–	(166,716)	(53,001)	31,375	7,346,084	6,806	7,352,890	
Transfer from surplus to surplus reserves	–	–	371,691	(371,691)	–	–	–	–	–	–	–	–	
Issuance of common shares (₱31.00 per share)	11,281	26,397	–	–	–	–	–	–	–	37,678	–	37,678	
Cash dividends - ₱0.83 per share	–	–	–	(2,229,297)	–	–	–	–	–	(2,229,297)	–	(2,229,297)	
Balance at December 31, 2018	₱26,858,998	₱17,122,625	₱4,031,008	₱40,497,256	(₱702,509)	₱–	₱117,047	(₱91,699)	₱19,154	₱87,851,880	₱4,707	₱87,856,587	
Balance at January 1, 2017	₱20,020,278	₱6,987,564	₱861,630	₱36,889,099	–	(₱1,598,600)	₱253,945	(₱22,500)	₱–	₱63,391,416	(₱5,212)	₱63,386,204	
Transfer from surplus to surplus reserves	–	–	65,059	(65,059)	–	–	–	–	–	–	–	–	
Total comprehensive income (loss) for the year	–	–	–	7,513,972	–	(214,680)	29,818	(16,198)	(12,221)	7,300,691	9,948	7,310,639	
Issuance of common shares (₱31.00 per share)	4,838,710	10,160,753	–	–	–	–	–	–	–	14,999,463	–	14,999,463	
Transaction cost on the issuance of common shares	–	(52,089)	–	–	–	–	–	–	–	(52,089)	–	(52,089)	
Stock dividends - 8.00%	1,988,729	–	–	(1,988,729)	–	–	–	–	–	–	–	–	
Cash dividends - ₱0.80 per share	–	–	–	(1,988,720)	–	–	–	–	–	(1,988,720)	–	(1,988,720)	
Balance at December 31, 2017	₱26,847,717	₱17,096,228	₱926,689	₱40,360,563	–	(₱1,813,280)	₱283,763	(₱38,698)	(₱12,221)	₱83,650,761	₱4,736	₱83,655,497	
Balance at January 1, 2016	₱18,537,285	₱6,987,564	₱828,406	₱33,800,748	–	(₱1,126,080)	₱183,155	(₱34,634)	₱–	₱59,176,444	(₱5,540)	₱59,170,904	
Total comprehensive income (loss) for the year	–	–	–	6,458,296	–	(472,520)	70,790	12,134	–	6,068,700	780	6,069,480	
Additional acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–	–	(452)	(452)	
Transfer from surplus to surplus reserves	–	–	33,224	(33,224)	–	–	–	–	–	–	–	–	
Stock dividends - 8.00%	1,482,993	–	–	(1,482,993)	–	–	–	–	–	–	–	–	
Cash dividends - ₱1.00 per share	–	–	–	(1,853,728)	–	–	–	–	–	(1,853,728)	–	(1,853,728)	
Balance at December 31, 2016	₱20,020,278	₱6,987,564	₱861,630	₱36,889,099	–	(₱1,598,600)	₱253,945	(₱22,500)	₱–	₱63,391,416	(₱5,212)	₱63,386,204	

See accompanying Notes to Financial Statements.



CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

Parent Company										
	Capital Stock (Note 23)	Capital Paid in Excess of Par Value (Note 23)	Surplus Reserves (Notes 23 and 28)	Surplus (Notes 23 and 28)	Net Unrealized (Losses) on Financial Assets at Fair Value through OtherComprehen sive Income (Note 9)	Net Unrealized Gains (Losses) on Available-for- Sale Financial Assets (Note 9)	Remeasurement Gain on Defined Benefit Asset or Liability (Note 24)	Cumulative Translation Adjustment	Remesasurement Loss on Life Insurance Reserve	Total Equity
Balance at January 1, 2018	¥26,847,717	¥17,096,228	¥926,689	¥40,360,563	¥-	(¥1,813,280)	¥283,763	(¥38,698)	(¥12,221)	¥83,650,761
Effect of initial application of PFRS 9 (Note 2)	-	-	2,732,628	(5,372,699)	(126,556)	1,813,280	-	-	-	(953,346)
Balance at January 1, 2018, as restated	¥26,847,717	¥17,096,228	3,659,317	34,987,864	(126,556)	-	¥283,763	(¥38,698)	(¥12,221)	82,697,417
Total comprehensive income (loss) for the year	-	-	-	8,110,379	(575,954)	-	(166,716)	(53,001)	31,374	7,346,081
Transfer from surplus to surplus reserves	-	-	371,691	(371,691)	-	-	-	-	-	-
Issuance of common shares (¥31.00 per share)	11,281	26,397	-	-	-	-	-	-	-	37,678
Cash dividends - ¥0.83 per share	-	-	-	(2,229,297)	-	-	-	-	-	(2,229,297)
Balance at December 31, 2018	¥26,858,998	¥17,122,626	¥4,031,008	¥40,497,256	(¥702,510)	¥-	¥117,047	(¥91,699)	¥19,153	¥87,851,880
Balance at January 1, 2017	¥20,020,278	¥6,987,564	¥861,630	¥36,889,099	-	(¥1,598,600)	¥253,945	(¥22,500)	¥-	¥63,391,416
Transfer from surplus to surplus reserves	-	-	65,059	(65,059)	-	-	-	-	-	-
Total comprehensive income (loss) for the year	-	-	-	7,513,972	-	(214,680)	29,818	(16,198)	(12,221)	7,300,691
Issuance of common shares (¥31.00 per share)	4,838,710	10,160,753	-	-	-	-	-	-	-	14,999,463
Transaction cost on the issuance of common shares	-	(52,089)	-	-	-	-	-	-	-	(52,089)
Stock dividends - 8.00%	1,988,729	-	-	(1,988,729)	-	-	-	-	-	-
Cash dividends - ¥0.80 per share	-	-	-	(1,988,720)	-	-	-	-	-	(1,988,720)
Balance at December 31, 2017	¥26,847,717	¥17,096,228	¥926,689	¥40,360,563	-	(¥1,813,280)	¥283,763	(¥38,698)	(¥12,221)	¥83,650,761
Balance at January 1, 2016	¥18,537,285	¥6,987,564	¥828,406	¥33,800,748	-	(¥1,126,080)	¥183,155	(¥34,634)	¥-	¥59,176,444
Total comprehensive income (loss) for the year	-	-	-	6,458,296	-	(472,520)	70,790	12,134	-	6,068,700
Transfer from surplus to surplus reserves	-	-	33,224	(33,224)	-	-	-	-	-	-
Stock dividends - 8.00%	1,482,993	-	-	(1,482,993)	-	-	-	-	-	-
Cash dividends - ¥1.00 per share	-	-	-	(1,853,728)	-	-	-	-	-	(1,853,728)
Balance at December 31, 2016	¥20,020,278	¥6,987,564	¥861,630	¥36,889,099	-	(¥1,598,600)	¥253,945	(¥22,500)	¥-	¥63,391,416

See accompanying Notes to Financial Statements.



CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	¥10,387,526	¥9,012,108	¥7,587,522	¥10,369,611	¥9,156,456	¥7,541,435
Adjustments for:						
Depreciation and amortization (Notes 12, 13 and 14)	1,297,685	1,217,489	1,124,786	947,908	877,240	775,210
Provision for impairment and credit losses (Note 16)	141,076	754,171	850,546	(1,957)	423,922	521,745
Securities gain on financial assets at fair value through other comprehensive income and investment securities at amortized cost (Note 21)	(9,624)	—	—	(9,277)	—	—
Trading and securities gain on available-for-sale and held-to-maturity financial assets (Note 21)	—	(365,145)	(918,673)	—	(342,146)	(856,031)
Gain on sale of investment properties	(1,015,622)	(670,612)	(443,315)	(925,831)	(614,587)	(338,088)
Gain on asset foreclosure and dacion transactions (Note 13)	(252,477)	(157,415)	(172,480)	(57,676)	(71,888)	(140,747)
Share in net losses (income) of an associate (Notes 2 and 11)	(101,009)	(73,133)	89,384	(101,009)	(73,133)	89,384
Share in net (income) of subsidiaries (Notes 2 and 11)	—	—	—	(695,356)	(836,004)	(464,999)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at FVPL	8,830,244	(8,510,654)	(1,282,482)	9,554,643	(8,799,606)	(1,590,640)
Loans and receivables	(60,828,559)	(63,393,487)	(78,836,033)	(57,994,624)	(57,873,074)	(70,542,734)
Other assets	(1,263,617)	6,159	(1,225,573)	(2,544,975)	275,322	(882,576)
Increase (decrease) in the amounts of:						
Deposit liabilities	87,029,904	93,510,375	102,317,332	79,007,383	88,273,987	97,358,575
Manager's checks	136,133	411,264	573,280	360,564	263,663	704,106
Accrued interest and other expenses	1,214,906	759,429	283,916	1,058,204	722,597	300,356
Other liabilities	1,960,943	177,618	827,790	2,393,871	(540,630)	759,981
Net cash generated from operations	47,527,509	32,678,167	30,776,000	41,361,482	30,842,119	33,234,977
Income taxes paid	(1,732,819)	(1,554,045)	(973,575)	(1,511,638)	(1,274,667)	(863,477)
Net cash provided by operating activities	45,794,690	31,124,122	29,802,425	39,849,844	29,567,452	32,371,500
CASH FLOWS FROM INVESTING ACTIVITIES						
Additions to bank premises, furniture, fixtures and equipment (Note 12)	(1,058,002)	(1,752,173)	(1,258,911)	(825,096)	(1,387,684)	(1,065,308)
Additions to equity investments (Note 11)	—	—	—	(500,000)	(500,000)	(2,700,452)
Cash dividends from a subsidiary (Note 11)	—	—	—	50,000	—	—
Liquidation of a subsidiary (Note 11)	—	—	—	—	—	50,000
Purchases of:						
Investment securities at amortized cost	(172,348,552)	—	—	(167,337,112)	—	—
Financial assets at fair value through other comprehensive income	(44,399,340)	—	—	(44,477,104)	—	—
Held-to-maturity financial assets	—	(23,618,560)	(41,647,865)	—	(23,599,743)	(41,007,909)
Available-for-sale financial assets	—	(54,304,672)	(89,249,294)	—	(53,171,027)	(87,747,373)
Proceeds from sale/maturity of:						
Investment securities at amortized cost	65,109,637	—	—	65,060,529	—	—
Financial assets at fair value through other comprehensive income	80,729,853	—	—	80,494,863	—	—
Held-to-maturity financial assets	—	15,737,093	374,569	—	16,135,271	884,532
Available-for-sale financial assets	—	41,891,950	104,653,914	—	41,500,714	103,940,382
Investment properties	1,810,112	1,335,946	977,963	1,458,379	846,974	675,003
Bank premises, furniture, fixtures and equipment	258,136	275,109	151,286	51,642	242,202	199,460
Net cash used in investing activities	(69,898,150)	(20,435,307)	(25,998,338)	(66,023,900)	(19,933,293)	(26,771,665)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills payable	184,568,424	252,268,556	18,588,791	184,568,424	252,268,556	18,588,791
Settlement of bills payable	(164,859,923)	(249,105,524)	(20,718,973)	(164,859,923)	(249,105,524)	(20,056,443)
Payments of cash dividends (Note 23)	(2,229,297)	(1,988,720)	(1,853,728)	(2,229,297)	(1,988,720)	(1,853,728)
Acquisitions of non-controlling interest (Note 11)	—	—	(452)	—	—	—
Proceeds from issuance of common shares (Note 23)	37,678	14,999,463	—	37,678	14,999,463	—
Transaction cost on the issuance of common shares (Note 23)	—	(52,089)	—	—	(52,089)	—
Net cash provided by (used in) financing activities	17,516,882	16,121,687	(3,984,362)	17,516,882	16,121,687	(3,321,380)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,586,585)	26,810,502	(180,277)	(8,657,174)	25,755,846	2,278,455

(Forward)



	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(P6,586,585)	P26,810,502	(P180,277)	(P8,657,174)	P25,755,846	P2,278,455
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	12,685,984	12,010,543	11,377,101	11,160,173	10,580,748	10,052,891
Due from Bangko Sentral ng Pilipinas (Note 7)	98,490,014	91,964,495	86,318,501	91,717,037	85,307,128	77,003,616
Due from other banks (Note 7)	15,641,476	11,332,236	21,243,492	14,066,620	9,689,165	19,200,544
Interbank Loans Receivable and SPURA (Note 8)	18,751,845	3,451,543	—	17,347,522	2,958,465	—
	145,569,319	118,758,817	118,939,094	134,291,352	108,535,506	106,257,051
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	15,639,474	12,685,984	12,010,543	13,705,304	11,160,173	10,580,748
Due from Bangko Sentral ng Pilipinas (Note 7)	101,889,773	98,490,014	91,964,495	95,092,944	91,717,037	85,307,128
Due from other banks (Note 7)	9,455,447	15,641,476	11,332,236	7,837,894	14,066,620	9,689,165
Securities purchased under resale agreements (Note 8)	11,998,040	18,751,845	3,451,543	8,998,040	17,347,522	2,958,465
	P138,982,734	P145,569,319	P118,758,817	P125,634,182	P134,291,352	P108,535,506

OPERATING CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	As of December 31					
	2018	2017	2016	2018	2017	2016
Interest paid	P11,361,726	P6,652,755	P5,028,667	P9,595,463	P5,359,209	P3,812,560
Interest received	33,233,827	25,835,369	21,498,837	28,041,653	21,322,995	17,273,294

See accompanying Notes to Financial Statements.



CHINA BANKING CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

China Banking Corporation (the Parent Company) is a publicly listed universal bank incorporated in the Philippines. The Parent Company acquired its universal banking license in 1991. It provides expanded commercial banking products and services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury products, trust products, foreign exchange, corporate finance and other investment banking services through a network of 458 and 436 local branches as of December 31, 2018 and 2017, respectively.

The Parent Company acquired its original Certification of Incorporation issued by the Securities and Exchange Commission (SEC) on July 20, 1920. On December 4, 1963, the Board of Directors (BOD) of the Parent Company approved the Amended Articles of Incorporation to extend the corporate term of the Parent Company for another 50 years or until July 20, 2020, which was confirmed by the stockholders on December 23, 1963, and approved by the SEC on October 5, 1964. On March 2, 2016, the BOD approved the amendment of the Third Article of the Parent Company's Articles of Incorporation, to further extend the corporate term for another 50 years from and after July 20, 2020, the expiry date of its extended term. The approval was ratified by the stockholders during their scheduled annual meeting on May 5, 2016. On November 7, 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation, amending the Third Article thereof to extend the term of corporate existence of the Parent Company.

The Parent Company has the following subsidiaries:

Subsidiary	Effective Percentages of Ownership		Country of Incorporation	Principal Activities
	2018	2017		
Chinabank Insurance Brokers, Inc. (CIBI)	100.00%	100.00%	Philippines	Insurance brokerage
CBC Properties and Computer Center, Inc. (CBC-PCCI)	100.00%	100.00%	Philippines	Computer services
China Bank Savings, Inc. (CBSI)	98.29%	98.29%	Philippines	Retail and consumer banking
China Bank Capital Corporation (CBCC)	100.00%	100.00%	Philippines	Investment house
CBC Assets One (SPC) Inc.	100.00%	100.00%	Philippines	Special purpose corporation
China Bank Securities Corporation (CBCSec)*	100.00%	100.00%	Philippines	Stock Brokerage

*Obtained control on March 6, 2017, 100% owned through CBCC (see note 11)

The Parent Company has no ultimate parent company. SM Investments Corporation, its significant investor, has effective ownership in the Parent Company of 20.30% and 19.90% as of December 31, 2018 and 2017, respectively.

The Parent Company's principal place of business is at 8745 Paseo de Roxas cor. Villar St., Makati City.



2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (collectively referred to as “the Group”).

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

The financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The financial statements of 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 the Parent Company’s subsidiaries is the Philippine peso.

Statement of Compliance

The financial statements of the Group and the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The balance sheets of the Group and of the Parent Company are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 22.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheets only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Group and the Parent Company assess that they have 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, the Parent Company and all of the counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group and the Parent Company.

Basis of Consolidation and Investments in Subsidiaries

The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All significant intra-group balances, transactions and income and expenses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company. The Group controls an investee if and only if the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);



- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the related OCI recorded in equity and recycle the same to profit or loss or surplus
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes the remaining difference in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be recognized if the Group had directly disposed of the related assets or liabilities

Non-Controlling Interest

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interest is presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance.



Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation which became effective as of January 1, 2018. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

- *New and Amended Standards*
 - Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
 - Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
 - Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- *Annual Improvements to PFRSs (2014 – 2017 Cycle)*
 - Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value*
 - Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

Standard that has been adopted and that is deemed to have significant impact on the financial statements or performance of the Group is described below:

PFRS 9, *Financial Instruments*

The Group adopted PFRS 9 on January 1, 2018 following the modified retrospective approach. PFRS 9 replaced PAS 39, *Financial Instruments: Recognition and Measurement*.

Under the modified retrospective approach, the Group did not restate the prior-period comparative consolidated financial statements and remains to report the comparative information for 2017 and 2016 under PAS 39. Accordingly, the 2017 and 2016 comparative financial statements are not comparable to the information presented for 2018. Differences in the carrying amounts of financial instruments resulting from the adoption of PFRS 9 are recognized in the opening January 1, 2018 surplus and OCI as if the Group had always followed the new requirements.

As a result of applying PFRS 9's requirements on classification and measurement of financial assets, the opening January 1, 2018 equity in the Group's and Parent Company's balance sheet increased by ₱1.78 billion and ₱1.67 billion, respectively, before deferred tax effects. This change resulted from reclassifications of financial assets depending on the Group's and the Parent Company's application of its business models and its assessment of the financial assets' cash flow characteristics. However, applying PFRS 9's requirements on the recognition of expected credit losses decreased the opening January 1, 2018 equity in the Group's and Parent Company's balance sheet by ₱3.59 billion and ₱3.09 billion, respectively, before deferred tax effects. Impairment under ECL is now dependent upon whether there have been significant increases in the credit risk of the Group's and Parent Company's financial assets since initial recognition and on the Group's and Parent Company's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions. Deferred tax asset recognized due to adoption of PFRS 9 amounted to ₱0.81 billion for the Group and ₱0.80 billion for the Parent Company.



The accounting policies adopted by the Group as a result of adopting PFRS 9 are discussed in page 8.

The adoption of PFRS 9 did not have an impact on the classification and measurement of the Group's and the Parent Company's financial liabilities and on the application of hedge accounting.

The impact of adopting PFRS 9 as of January 1, 2018 follows (amounts in thousands):

	Consolidated						
	PAS 39		Re-classifications	Remeasurement		PFRS 9	
	Category	Amount		ECL	Other	Category	Amount
Assets							
Cash and other cash items	Loans and receivables	₱12,685,984	₱-	₱-	₱-	Amortised cost	₱12,685,984
Due from BSP	Loans and receivables	98,490,014	-	-	-	Amortised cost	98,490,014
Due from Other Banks	Loans and receivables	15,641,476	-	-	-	Amortised cost	15,641,476
SPURA	Loans and receivables	18,751,845	-	-	-	Amortised cost	18,751,845
Loans and receivables	Loans and receivables	448,970,942	(1,000,040)	(1,781,992)	-	Amortised cost	446,188,910
Accrued interest receivable	Loans and receivables	3,718,505	-	(36,195)	-	Amortised cost	3,682,310
Other financial assets	Loans and receivables	4,412,643	-	(14,459)	-	Amortised cost	4,398,184
Held for trading	FVPL	12,493,615	2,446,099	-	(8,133)	FVPL (mandatory)	14,931,581
Financial assets designated at FVPL	FVPL	3,411,686	(3,411,686)	-	-	FVPL (designated)	-
Derivative assets	FVPL	333,587	-	-	-	FVPL (mandatory)	333,587
Investment securities	AFS	46,445,391	(39,153,620)	-	82,267	FVOCI	7,374,038
	HTM	65,286,267	41,119,247	(89,344)	1,703,105	Amortised cost	108,019,275
		₱730,641,955	₱-	(₱1,921,990)	₱1,777,239		₱730,497,204
Liabilities							
Loan commitments and financial guarantee contracts		₱-	₱-	(₱1,670,992)	₱-		₱-

Consolidated			
Equity	Balance at January 1, 2018		Balance at January 1, 2018 (as restated)
		Transition adjustments	
Surplus	₱40,360,563	(₱5,372,699)	₱34,987,865
Surplus reserves	926,689	2,732,628	3,659,317
NUGL	(1,813,280)	1,686,724	(126,556)
	₱39,473,972	(₱953,346)	₱38,520,626

Parent Company							
	PAS 39		Re-classifications	Remeasurement		PFRS 9	
	Category	Amount		ECL	Other	Category	Amount
Assets							
Cash and other cash items	Loans and receivables	11,160,173	₪-	₪-	₪-	Amortised cost	₪11,160,173
Due from BSP	Loans and receivables	91,717,037	-	-	-	Amortised cost	91,717,037
Due from Other Banks	Loans and receivables	14,066,620	-	-	-	Amortised cost	14,066,620
SPURA	Loans and receivables	17,347,522	-	-	-	Amortised cost	17,347,522
Loans and receivables	Loans and receivables	386,554,498	(1,000,040)	(1,390,961)	-	Amortised cost	384,163,497
Accrued interest receivable	Loans and receivables	3,189,083	-	-	-	Amortised cost	3,189,083
Other financial assets	Loans and receivables	2,135,717	-	-	-	Amortised cost	2,135,717
Held for trading	FVPL	12,311,550	2,581,497	-	(8,133)	FVPL (mandatory)	14,884,914
Financial assets designated at FVPL	FVPL	3,411,686	(3,411,686)	-	-	FVPL (designated)	-
Derivative assets	FVPL	333,587	-	-	-	FVPL (mandatory)	333,587
Investment securities	AFS	42,937,083	(37,714,189)	-	102,267	FVOCI	5,325,161
	HTM	61,533,493	39,544,418	(83,618)	1,578,921	Amortised cost	102,573,214
		₪646,698,049	₪-	(₪1,474,579)	₪1,673,055		₪646,896,525
Liabilities							
Loan commitments and financial guarantee contracts		₪-	₪-	(₪1,614,933)	₪-		₪-

Parent Company			
Equity	Balance at January 1, 2018		Balance at January 1, 2018 (as restated)
		Transition adjustments	
Surplus	₱40,360,564	(₱5,074,296)	₱35,286,268
Surplus reserves	926,689	2,434,227	3,360,916
NUGL	(1,813,280)	1,686,724	(126,556)
	₱39,473,972	(₱953,346)	₱38,520,626

In January 1, 2018, the Group reclassified the following:

- a portion of its previous held-to-maturity investments with carrying value of ₱2.82 billion as FVOCI investments. These instruments had contractual cash flows that were solely payments for principal and interests and were held for liquidity management; and



- c. a portion of its AFS investments and held-to-maturity investments with carrying value of ₱2.32 billion and ₱2.78 billion, respectively, as FVTPL investments. These instruments either did not have contractual cash flows that were solely payments for principal and interests, or were intended for active trading and were held with the intention to sell.

In January 1, 2018, the Parent Company reclassified the following:

- a. a portion of its previous held-for-trading investments and AFS investments with carrying value of ₱5.93 billion and ₱38.22 billion, respectively, as investment securities at amortized cost. These instruments had contractual cash flows that were solely payments for principal and interests, were not intended for active trading and were held with the intention to collect cash flows and without the intention to sell;
- b. a portion of its previous held-to-maturity investments and held-for-trading investments with carrying value of P2.82 billion and P135.40 million, respectively, as FVOCI investments. These instruments had contractual cash flows that were solely payments for principal and interests and were held for liquidity management;
- c. a portion of its AFS investments and held-to-maturity investments with carrying value of P2.32 billion and P2.78 billion, respectively, as FVTPL investments. These instruments either did not have contractual cash flows that were solely payments for principal and interests, or were intended for active trading and were held with the intention to sell.

Had the FVPL securities not been transferred, additional fair value loss of ₱389.47 million would have been charged to profit or loss.

In addition, the Group has presented separately the interest revenue, calculated using effective interest method, from other interest revenue. As a result, Interest income on Investment securities at amortized cost and FVOCI is presented separately from Interest income on trading securities at fair value through profit or loss. Previously, these interest income items were presented together as Interest income on trading and investment securities.

PFRS 15, Revenue from Contracts with Customers

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

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

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



Loyalty points program on credit card business

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

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

Significant Accounting Policies

Foreign Currency Translation

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency.

Transactions and balances

The books of accounts of the RBU are maintained in Philippine peso, the RBU's functional currency, while those of the FCDU are maintained in United States (US) dollars (USD), the FCDU's functional currency. 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 end of the year, and foreign currency-denominated income and expenses, at the exchange rates on transaction dates. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities 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 in a foreign currency 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 are translated into the Parent Company's presentation currency (the Philippine Peso) at the PDS closing rate prevailing at the reporting date, and its income and expenses are translated at the PDSWAR for the year. Exchange differences arising on translation are taken directly to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon actual remittance or transfer of the FCDU income to RBU, the related exchange difference arising from translation lodged under 'Cumulative translation adjustment' is recognized in the statement of income of the RBU books.

Fair Value Measurement

The Group measures financial instruments, such as financial instruments at FVPL and AFS financial assets at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.



The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid - ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

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 reporting period.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, and securities purchased under resale agreement (SPURA) that are convertible to known amounts of cash which have original maturities of three months or less from dates of placements and that are subject to an insignificant risk 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.

Securities Purchased under Resale Agreement

Securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the balance sheet. The corresponding cash paid including accrued interest, is recognized in the balance sheet as SPURA. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

Financial Instruments - Initial Recognition

Date of recognition

Purchases or sales of financial assets, except for derivative instruments, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on



disposal on the day that such asset is delivered by the Group. Any change in fair value of unrecognized financial asset is recognized in the statement of income for assets classified as financial assets at FVPL, and in equity for assets classified as Financial assets at FVOCI and AFS financial assets. Derivatives are recognized on a trade date basis. Deposits, amounts due to banks and customers loans and receivables are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

'Day 1' difference

Where the transaction price in a non-active market is different with 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 Impairment of Financial Assets (PFRS 9)

Classification and measurement

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

As part of its classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortization of the premium or discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

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

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



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

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

The Group's measurement categories are described below:

Investment Securities 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 financial assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's investment securities at amortized cost are presented in the statement of financial position as Due from BSP, Due from other banks, Interbank loans receivable and SPURA, investment securities at amortized cost, Loans and receivables, Accrued interest receivables and certain accounts under Other assets.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

Financial Assets at FVTPL

Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include government securities, corporate bonds and equity securities which are held for trading purposes.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- 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 financial guarantee.



Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL and gains or losses arising from disposals of these instruments are included in 'Gains (losses) on trading and investment securities' account in the statements of income.

Interest recognized based on the modified effective interest rate of these investments is reported in statements of income under 'Interest income' account while dividend income is reported in statements of income under 'Miscellaneous income' account when the right of payment has been established.

Financial Assets at FVOCI - Equity Investments

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading. The Group has designated certain equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in Net unrealized fair value gains (losses) on investment securities in the statements of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in the Net unrealized fair value gains (losses) on investment securities account is not reclassified to profit or loss, but is reclassified directly to Surplus free account. Any dividends earned on holding these equity instruments are recognized in profit or loss under 'Miscellaneous Income' account.

Financial Assets at FVOCI - Debt Investments

The Group applies the new category under PFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for financial assets at FVOCI is explained in the 'Impairment of Financial Assets' section.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) 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 characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

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



Impairment of financial assets

The adoption of PFRS 9 has fundamentally changed the Group's impairment method by replacing PAS 39's incurred loss approach with a forward-looking ECL approach. From January 1, 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets carried at amortized cost, financial assets carried at FVOCI, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under PFRS 9.

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Group and the Parent Company recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Group and the Parent Company recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

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

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes at least 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days (i.e. consecutive payments from the borrowers for 180 days).

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors such as downgrade in the credit rating of the borrowers and a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual



payments are more than a specified days past due threshold (i.e. 30 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

ECL is a function of the PD, EAD and LGD, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. EAD represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held. Please refer to Note 6 for other information related to the Bank's models for PD, EAD, and LGD.

The calculation of ECLs, including the estimation of PD, EAD, LGD and discount rate is made, on an individual basis for most of the Group's financial assets, and on a collective basis for retail products such as credit card receivables. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

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

Classification, Reclassification and Impairment of Financial Assets (Prior to Adoption of PFRS 9)

The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, AFS financial assets, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments at FVPL

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

Financial instruments held for trading

Financial instruments held for trading (HFT) include government and corporate debt securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair value, and realized and unrealized gains and losses on these instruments are recognized as 'Trading and securities gain - net' in the statement of income. Interest earned or



incurred on financial instruments held for trading is reported in the statement of income under 'Interest income' (for financial assets) and 'Interest expense' (for financial liabilities).

Financial instruments designated at FVPL

Financial instruments are designated as at FVPL by management on initial recognition when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial instruments at FVPL are recorded in the balance sheet at fair value. Changes in fair value are recognized in 'Trading and securities gain - net' in the statement of income. Interest earned or incurred is reported in the statement of income under 'Interest income' or 'Interest expense', respectively, while dividend income is reported in the statement of income under 'Miscellaneous income' when the right to receive payment has been established.

As of December 31, 2017, financial assets designated as at FVPL consist of instruments in shares of stocks.

Derivative instruments

The Parent Company is a party to derivative instruments, particularly, forward exchange contracts, interest rate swaps (IRS) and warrants. These contracts are entered into as a service to customers and as a means of reducing and managing the Parent Company's foreign exchange risk, and interest rate risk as well as for trading purposes, but are not designated as hedges. Such derivative financial instruments are stated at fair value through profit or loss.

Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income under 'Foreign exchange gain (loss) - net' for forward exchange contracts and 'Trading and securities gain-net' for IRS and warrants.

Embedded derivatives that are bifurcated from the host financial and non-financial contracts are also accounted for as financial instruments at FVPL.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at fair value through profit or loss.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows that would otherwise be required. The accounting policy on embedded derivatives in host financial liability and non-financial contracts is still applied under PFRS 9.



Held-to-maturity financial assets

HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group would sell other than an insignificant amount of HTM financial assets, the entire category would be tainted and reclassified as AFS financial assets and the Group would be prohibited from classifying any financial asset under HTM category during the current year and two succeeding years thereafter unless for sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in income when the HTM financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment and credit losses'. The effects of translation of foreign currency-denominated HTM financial assets are recognized in the statement of income. This account consists of government and corporate debt securities.

Loans and receivable

This accounting policy relates to the balance sheet captions 'Due from BSP', 'Due from other banks', 'SPURA', 'Loans and receivables', 'Accrued interest receivable', 'Accounts receivable', 'Sales contract receivable' (SCR), 'Returned checks and other cash items' (RCOCI), and 'Miscellaneous financial assets'. These are financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as FVPL;
- those that the Group, upon initial recognition, designates as AFS; and
- those for which the Group may not cover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, these are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included under 'Interest income' in the statement of income. The losses arising from impairment are recognized under 'Provision for impairment and credit losses' in the statement of income.

Available-for-sale financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets, or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market



conditions. They include equity investments, money market papers and government and corporate debt securities.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of translation of foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from reported earnings and are reported as 'Net unrealized gains (losses) on AFS financial assets' under OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain - net' in the statement of income. Interest earned on holding AFS debt securities are reported as 'Interest income' using the EIR. Dividends earned on holding AFS equity instruments are recognized in the statement of income as 'Miscellaneous income' when the right to the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment and credit losses' in the statement of income.

Other financial liabilities

These are issued financial instruments or their components which are not designated as at FVPL and 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 its 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.

After initial measurement, other financial liabilities not qualified and not designated as at FVPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy relates to the balance sheet captions 'Deposit liabilities', 'Bills payable', 'Manager's checks', and financial liabilities presented under 'Accrued interest and other expenses' and 'Other liabilities'.

Reclassification of Financial Assets

The Group may reclassify, in rare circumstances, non-derivative financial assets out of the HFT investments category and into the AFS financial assets, Loans and Receivables or HTM financial assets categories. The Group may also reclassify, in certain circumstances, financial instruments out of the AFS financial assets to loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

The Group may reclassify a non-derivative trading asset out of HFT investments and into the Loans and Receivable category if it meets the definition of loans and receivables, the Group has the intention and ability to hold the financial assets for the foreseeable future or until maturity and only in rare circumstances. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.



For a financial asset reclassified out of the AFS financial assets category, any previous gain or loss on that asset that has been recognized in OCI is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired then the amount recorded in OCI is recycled to the statement of income. Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the FVPL category after initial recognition. An analysis of reclassified financial assets is disclosed in Note 9.

Impairment of Financial Assets

The Group assesses at each reporting 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.

Financial assets carried at amortized cost

For financial assets carried 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (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.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, 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 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 assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.



For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period 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 unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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. If a future write-off is later recovered, the recovery is credited to 'Miscellaneous income'.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from OCI and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in subsequent years, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.



Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered 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 subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's balance sheets. However, the fair value of collateral affects the calculation of loss allowances. It is generally assessed, at a minimum, at inception and re-assessed on an annual basis. To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by internal or external appraisers.

Derecognition of Financial Assets and 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
- 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 risks and rewards of the asset but has transferred 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 of 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 the 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.



Write-offs

Financial assets are written off either partially or in their entirety when the Group no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Investment in Associates

Associates pertain to all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated and parent company financial statements, investments in associates are accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associates. Goodwill, if any, relating to an associate is included in the carrying value of the investment and is not amortized. The statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits or losses resulting from transactions between the Group and an associate are eliminated to the extent of the interest in the associate.

Dividends earned on this investment are recognized in the Parent Company's statement of income as a reduction from the carrying value of the investment.

The financial statements of the associate are prepared for the same reporting period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Investment in Subsidiaries

In the parent company financial statements, investment in subsidiaries is accounted for under the equity method of accounting similar to the investment in associates.

Business Combinations and Goodwill

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 measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are charged to profit or loss.



When the Group acquires a business, it assesses the financial assets and 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 PAS 39, either in profit or loss or as a charge to OCI. 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 fair value 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 profit or loss as gain on bargain purchase under 'Miscellaneous income'.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment identified for segment reporting purposes.

Where goodwill forms part of a CGU (or group of CGUs) 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.

Cash Dividend and Non-cash Distribution to Equity Holders of the Parent Company

The Group recognizes a liability to make cash or non-cash distributions to equity holders of the parent company when the distribution is authorized and the distribution is no longer at the discretion of the Group.

A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognized directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the statement of income.



Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment in value while depreciable properties such as buildings, leasehold improvements, and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the bank premises, furniture, fixtures and equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance costs.

Construction-in-progress is stated at cost less any impairment in value. The initial cost comprises its construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Depreciation and amortization is calculated using the straight-line method over the estimated useful life (EUL) of the depreciable assets as follows:

	EUL
Buildings	50 years
Furniture, fixtures and equipment	3 to 5 years
Leasehold improvements	Shorter of 6 years or the related lease terms

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment and leasehold improvements.

An item of bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties

Investment properties include real properties acquired in settlement of loans and receivables which are measured initially at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The difference between the fair value of the investment property upon foreclosure and the carrying value of the loan is recognized under 'Gain on asset foreclosure and dacion transactions' in the statement of income. Subsequent to initial recognition, depreciable investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value except for land which is stated at cost less impairment in value.

Expenditures incurred after the investment properties have been put into operation, 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 EUL of the building and improvement components of investment properties which ranged from 10 to 33 years from the time of acquisition of the investment properties.



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 derecognition of an investment property are recognized as 'Gain on sale of investment properties' in the statement of income in the year of derecognition.

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.

Intangible Assets

Intangible assets include software cost and branch licenses resulting from the Parent Company's acquisition of CBSI, Unity Bank and PDB (Notes 11 and 14).

Software costs

Costs related to software purchased by the Group for use in operations are amortized on a straight-line basis over 3 to 10 years. The amortization method and useful life are reviewed periodically to ensure that the method and period of amortization are consistent with the expected pattern of economic benefits embodied in the asset.

Branch licenses

The branch licenses are initially measured at fair value as of the date of acquisition and are deemed to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows for the Group.

Such intangible assets are not amortized, instead they are tested for impairment annually either individually or at the CGU level. Impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the intangible asset relates. Recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

Gains and losses arising from 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 earnings when the asset is derecognized.

Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (e.g., investment in associates, investment properties, bank premises, furniture, fixtures and equipment, goodwill and intangible assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).



An impairment loss is charged to operations in the year in which it arises.

For nonfinancial assets, excluding goodwill and branch licenses, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed, except for goodwill, only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term and included in 'Occupancy cost' in the statement of income.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Capital Stock

Capital stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital paid in excess of par value' in the balance sheet. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.



Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

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 instruments classified as FVOCI and AFS financial assets, interest income is recorded at either 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, or at rate stated in the contract. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, as applicable, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in 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.

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 two 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 investment fund fees, custodian fees, fiduciary fees, commission income, credit related fees, asset management fees, portfolio and other management fees, and advisory fees.

b. Fee income from providing transactions services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - 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 EIR as for the other participants.

c. Commitment fees

Loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. If the commitment expires without the Group making the loan, the commitment fees are recognized as other income on expiry.

Service charges and penalties

Service charges and penalties are recognized only upon collection or accrued where there is a reasonable degree of certainty as to their collectability.



Other income

Income from sale of service is recognized upon rendition of the service. Income from sale of properties is recognized when control has been obtained by the customer and when the collectability of the sales price is reasonably assured.

Dividend income

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

Trading and securities gain

This represents results arising from trading activities and sale of AFS financial assets or FVOCI debt assets.

Expense Recognition

Expense is recognized when it is probable that a decrease in future economic benefits related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense

Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Other expenses

Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Group. Expenses are recognized when incurred.

Retirement Benefits

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 and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement liability. 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:

- (a) service cost;
- (b) net interest on the net defined benefit liability or asset; and
- (c) 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 profit or loss. 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 Philippine 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 profit or loss.

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

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the 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. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Income Taxes

Current tax

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 as of the reporting date.



Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from 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.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 reporting date.

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

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

Earnings per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock splits, stock dividends declared and stock rights exercised during the year, if any.

The Parent Company has no outstanding dilutive potential common shares.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company and its subsidiaries. Dividends declared during the year that are approved after the reporting date are dealt with as an event after the reporting date.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is



presented in Note 31. The Group's revenue producing assets are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities

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

Events after the Reporting Period

Any post year-end events that provide additional information about the Group's position at the reporting date (adjusting event) are reflected in the Group's financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Standards Issued but Not Yet Effective

There are new PFRSs, amendments, interpretation and annual improvements, to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements:

Effective beginning on or after January 1, 2019:

- PFRS 9 (Amendment), *Prepayment Features with Negative Compensation*. Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. Management has assessed that the amendment has no impact on the consolidated and parent company financial statements.
- PFRS 16, *Leases*. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (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.

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.

Upon adoption of this standard, the Group and the Parent Company expect to recognize a right of use asset and lease liability for covered lease contracts. Management is currently assessing the impact of this new standard in the consolidated and parent company financial statements.

- PAS 19 (Amendments), *Employee Benefits, Plan Amendment, Curtailment or Settlement*. The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
 - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
 - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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

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

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

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



The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

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

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by 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.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

Annual Improvements to PFRS 2015-2017 Cycle

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

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.



- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.
- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*. The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*. The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

These amendments will apply on future business combinations of the Group.

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

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

Effective beginning on or after January 1, 2021

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



The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

Deferred effectivity

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

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (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 accordance 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 at reporting date. 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 they 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. Fair value of financial instruments

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



Where the fair values of financial assets and financial liabilities recorded on the balance sheet or disclosed in the notes cannot be derived from active markets, they are determined using discounted cash flow model, incorporating inputs such as current market rates of comparable instruments. The carrying values and corresponding fair values of financial instruments, as well as the manner in which fair values were determined, are discussed in more detail in Note 5.

b. HTM financial assets (prior to PFRS 9 adoption)

The classification to HTM financial assets requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as part of AFS financial assets. The investments would therefore be measured at fair value and not at amortized cost.

Details of AFS financial assets reclassified to HTM are disclosed in Note 9.

c. 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 counsel 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 the financial statements (Note 30). 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.

d. Evaluation of business model in managing financial instruments (PFRS 9)

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

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

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group, various risks and key performance indicators being reviewed and monitored by responsible officers, as well as the manner of compensation for them.

At the start of 2018, the Parent Bank's BOD approved its documentation of business models which contains broad categories of banking and trading business models. The banking business model includes the Parent Bank's lending activities as well as treasury business activities broken down into liquidity and investment portfolios. The approval of the business models triggered the realignment and reassessment of the Parent Bank's strategy for managing its HTC portfolio and the introduction of new portfolios with the objective of maximizing risk-adjusted returns. As such, the Bank's classification of financial assets now consists of amortized cost, FVOCI and FVTPL, where certain securities were reclassified from a classification measured at amortized cost to a classification measured at fair value, and vice versa, at the beginning of first quarter of 2018.



In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

In 2018, the Bank participated in bond exchanges resulting in disposal of certain financial assets carried at amortized cost. The Parent Bank has assessed that such sales are not more than infrequent and are necessary in order to ensure that the outstanding securities remain of an acceptable liquid quality. The disposals are considered not inconsistent with the objective of hold to collect business model. The remaining securities in the affected portfolios continue to be measured at amortized cost as of December 31, 2018.

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

e. Testing the cash flow characteristics of financial assets (PFRS 9)

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

Estimates

a. Credit losses on loans and receivables (prior to adoption of PFRS 9)

The Group reviews its loans and receivables at each reporting date to assess whether an allowance for credit losses should be recorded in the balance sheet and any changes thereto 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 level of allowance required. Such estimates are based on assumptions about a number of factors such as the financial condition of the borrower, estimated future cash flows, observable market prices and estimated net selling prices of the related collateral. Actual results may also differ, resulting in future changes to the allowance.



In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment assessment on exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. The resulting collective allowance is based on historical loss experience adjusted on the basis of current observable data for assets with similar credit risk characteristics.

The carrying values of loans and receivables and the related allowance for credit losses of the Group and the Parent Company are disclosed in Notes 10 and 16.

b. Expected credit losses on financial assets and commitments (PFRS 9)

The Group reviews its financial assets and commitments at each reporting date to determine the amount of expected credit losses to be recognized in the balance sheet and any changes thereto in the statement of income. In particular, judgments and estimates by management are required in determining the following:

- whether a financial asset has had a significant increase in credit risk since initial recognition;
- whether default has taken place and what comprises a default;
- macro-economic factors that are relevant in measuring a financial asset's probability of default as well as the Group's forecast of these macro-economic factors;
- probability weights applied over a range of possible outcomes;
- sufficiency and appropriateness of data used and relationships assumed in building the components of the Group's expected credit loss models;
- measuring the exposure at default for unused commitments on which an expected credit loss should be recognized and the applicable loss rate

The related allowance for credit losses of financial assets and commitments of the Group and the Parent Company are disclosed in Notes 16 and 20.

c. Impairment of 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 cash generating unit CGU to which the goodwill relates. The recoverable amount of the CGU is determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. For VIU, the Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Impairment assessment process requires significant judgement and based on assumptions, specifically loan and deposit growth rates, discount rate and the terminal value growth rates.

Where the recoverable amount is less than the carrying amount of the CGU 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. The carrying values of the Group's goodwill are disclosed in Note 14.

d. Impairment of branch licenses

The Group conducts an annual review for any impairment in the value of branch licenses. Branch licenses are written down for impairment where the recoverable value is insufficient to support the carrying value. The recoverable amount of branch licenses is the higher between fair value less costs of disposal (FVLCD) and its value-in-use (VIU). FVLCD of branch licenses is based on the special licensing fee of BSP on branches operating on identified restricted areas. The



recoverable amount of the CGU is determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. For VIU, the Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Impairment assessment process requires significant judgement and based on assumptions, specifically loan and deposit growth rates, discount rate and the terminal value growth rates.

The carrying values of the Group's branch licenses are disclosed in Note 14.

e. Net plan assets and retirement expense

The determination of the Group's net plan assets and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. These assumptions include, among others, discount rates and salary rates.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date.

The present value of the retirement obligation and fair value of plan assets, including the details of the assumptions used in the calculation are disclosed in Note 24.

f. Recognition of deferred income taxes

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management discretion is required to determine the amount of deferred tax assets that can be recognized, based on the forecasted level of future taxable profits and the related future tax planning strategies. Key assumptions used in forecast of future taxable income include loan portfolio and deposit growth rates.

The Group believes it will be able to generate sufficient taxable income in the future to utilize its recorded deferred tax assets. Taxable income is sourced mainly from interest income from lending activities and earnings from service charge, fees, commissions and trust activities.

The recognized and unrecognized deferred tax assets are disclosed in Note 27.

g. Impairment on non-financial assets

The Group assesses impairment on its nonfinancial assets (e.g., investment properties and bank premises, furniture, fixtures and equipment) and considers the following impairment indicators:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Except for investment properties where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The carrying values of the Group's nonfinancial assets are disclosed in Notes 12 and 13.



4. Financial Instrument Categories

The following table presents the total carrying amount of the Group's and the Parent Company's financial instruments per category:

	2018	
	Consolidated	Parent Company
Financial assets		
Cash and other cash items	₱15,639,474	₱13,705,304
Financial assets at FVTPL	7,596,261	6,689,796
Financial assets at FVOCI	10,101,527	8,213,010
Financial assets at amortized cost		
Due from BSP	101,889,773	95,092,944
Due from other banks	9,455,447	7,837,894
Interbank loans receivables and SPURA	11,998,040	8,998,040
Investment securities	172,537,036	163,824,466
Loans and receivables	505,804,955	441,432,156
Accrued interest receivable	5,697,181	5,126,127
Other assets*	3,577,270	1,520,108
	810,959,702	723,831,735
Total financial assets	₱844,296,964	₱752,439,845

	2017	
	Consolidated	Parent Company
Financial assets		
Cash and other cash items	₱12,685,984	₱11,160,173
Financial assets at FVTPL	16,238,888	16,056,823
AFS financial assets	46,445,391	42,937,083
HTM financial assets	65,286,267	61,533,493
Loans and receivables:		
Due from BSP	98,490,014	91,717,037
Due from other banks	15,641,476	14,066,620
Interbank loans receivables and SPURA	18,751,845	17,347,522
Loans and receivables	448,970,942	386,554,498
Accrued interest receivable	3,718,505	3,189,083
Other assets*	3,645,678	1,594,757
	589,218,460	514,469,517
Total financial assets	₱729,874,990	₱646,157,089

*Other assets include accounts receivables, SCR, RCOI and miscellaneous financial assets (Note 15).

	Consolidated		Parent Company	
	2018	2017	2018	2017
Financial liabilities				
Other financial liabilities:				
Deposit liabilities	₱722,123,297	₱635,093,393	₱638,243,362	₱559,235,979
Bills payable	39,826,532	20,118,031	39,826,532	20,118,031
Manager's checks	2,577,175	2,441,042	2,069,812	1,709,248
Accrued interest and other expenses*	2,456,064	1,381,441	2,035,662	1,068,572
Other liabilities**	7,347,450	5,399,076	5,779,466	3,509,795
	774,330,518	664,432,983	687,954,834	585,641,625
Financial liabilities at FVPL:				
Derivative liabilities	455,150	267,533	455,150	267,533
Total financial liabilities	₱774,785,668	₱664,700,516	₱688,409,984	₱585,909,158

*Accrued interest and other expenses includes accrued interest payable and accrued other expenses payable (Note 19).

**Other liabilities exclude withholding taxes payable and retirement liabilities (Note 20).



5. Fair Value Measurement

The Group has assets and liabilities in the consolidated and Parent Company balance sheets that are measured at fair value on a recurring and non-recurring basis after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the balance sheet at the end of each financial reporting period. These include financial assets and liabilities at FVPL, AFS financial assets and financial assets at FVOCI. Non-recurring fair value measurements are those that another PFRS requires or permits to be recognized in the balance sheet in particular circumstances. For example, PFRS 5 requires an entity to measure an asset held for sale at the lower of its carrying amount and fair value less costs to sell. Since the asset's fair value less costs to sell is only recognized in the balance sheet when it is lower than its carrying amount, that fair value measurement is non-recurring.

As of December 31, 2018 and 2017, except for the following financial instruments, the carrying values of the Group's and the Parent Company's financial assets and liabilities as reflected in the balance sheets and related notes approximate their respective fair values:

	2018			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Investment securities at amortized cost				
Investment securities (Note 9)				
Government bonds	₱117,260,018	₱108,886,906	₱110,220,634	₱102,006,641
Private bonds	55,277,018	54,077,408	53,603,832	52,509,703
Loans and receivables (Note 10)				
Corporate and commercial lending	406,403,070	389,177,803	376,793,349	357,613,633
Consumer lending	85,688,187	85,222,099	51,816,708	46,749,579
Trade-related lending	13,662,914	13,283,538	12,782,734	12,772,774
Others	50,785	56,603	39,365	45,185
Sales contracts receivable (Note 15)	1,040,939	1,101,941	199,692	178,486
Financial Liabilities				
Deposit liabilities (Note 17)	321,343,811	299,666,264	265,739,836	243,898,397
	2017			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
HTM financial assets (Note 9)				
Government bonds	₱52,998,477	₱51,488,294	₱50,263,703	₱48,754,016
Private bonds	12,287,790	12,110,870	11,269,790	11,354,669
Loans and receivables (Note 10)				
Corporate and commercial lending	365,117,654	349,880,762	333,430,383	315,853,285
Consumer lending	71,577,984	74,207,566	42,556,905	41,952,821
Trade-related lending	12,062,711	12,041,107	10,513,204	10,417,129
Others	212,593	196,307	54,006	63,198
Sales contracts receivable (Note 15)	918,147	1,060,191	184,092	200,134
Financial Liabilities				
Deposit liabilities (Note 17)	292,083,031	282,586,204	240,712,750	236,777,045

The methods and assumptions used by the Group and Parent Company in estimating the fair values of the financial instruments follow:

Cash and other cash items, due from BSP and other banks, interbank loans receivable and SPURA and accrued interest receivable - The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.



Debt securities - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities (prior to adoption of PFRS 9) - For publicly traded equity securities, fair values are based on quoted prices. For unquoted equity securities for which no reliable basis for fair value measurement is available, these are carried at cost net of impairment, if any.

Equity securities (upon adoption of PFRS 9) - For publicly traded equity securities, fair values are based on quoted prices. For unquoted equity securities, remeasurement to their fair values is not material to the financial statements.

Loans and receivables and sales contracts receivable (SCR) included in other assets - Fair values of loans and receivables and SCR are estimated using the discounted cash flow methodology, where future cash flows are discounted using the Group's current incremental lending rates for similar types of loans and receivables.

Accounts receivable, RCOI and other financial assets included in other assets - Quoted market prices are not readily available for these assets. These are reported at cost and are not significant in relation to the Group's total portfolio of securities.

Derivative instruments (included under FVPL) - Fair values are estimated based on discounted cash flows, using prevailing interest rate differential and spot exchange rates.

Deposit liabilities (time, demand and savings deposits) - Fair values of time deposits are estimated using the discounted cash flow methodology, where future cash flows are discounted using the Group's current incremental borrowing rates for similar borrowings and with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Bills payable - Fair values are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current incremental borrowing rates for similar borrowings and with maturities consistent with those remaining for the liability being valued.

Manager's checks and accrued interest and other expenses - Carrying amounts approximate fair values due to the short-term nature of the accounts.

Other liabilities - Quoted market prices are not readily available for these liabilities. These are reported at cost and are not significant in relation to the Group's total portfolio.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: inputs that are not based on observable market data or unobservable inputs.



As of December 31, 2018 and 2017, the fair value hierarchy of the Group's and the Parent Company's assets and liabilities are presented below:

	Consolidated			
	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements^(a)				
Financial assets at FVPL				
Held-for-trading				
Government bonds	₱492,521	₱141,372	₱—	₱633,893
Treasury notes	—	838,662	—	838,662
Treasury bills	—	1,214,170	—	1,214,170
Private bonds	3,189,063	—	—	3,189,063
Quoted equity shares	1,312,625	—	—	1,312,625
Derivative assets	—	407,848	—	407,848
Financial assets at FVOCI				
Government bonds	4,859,716	5,107,673	—	9,967,389
Quoted private bonds	35,370	—	—	35,370
Quoted equity shares	80,403	—	—	80,403
	₱9,969,698	₱7,709,725	—	₱17,679,423
Financial liabilities at FVPL				
Derivative liabilities	—	455,150	—	455,150
	—	455,150	—	455,150
Fair values of assets carried at amortized cost/cost^(a)				
Investment securities at amortized cost				
Government bonds	108,886,906	—	—	108,886,906
Private bonds	54,077,408	—	—	54,077,408
Loans and receivables				
Corporate and commercial loans	—	—	389,177,803	389,177,803
Consumer loans	—	—	85,222,099	85,222,099
Trade-related loans	—	—	13,283,538	13,283,538
Others	—	—	56,603	56,603
Sales contracts receivable	—	—	1,101,941	1,101,941
Investment properties ^(b)				
Land	—	—	8,696,956	8,696,956
Buildings and improvements	—	—	1,371,972	1,371,972
	₱162,964,314	₱—	₱498,910,912	₱661,875,227
Fair values of liabilities carried at amortized cost^(a)				
Deposit liabilities	₱—	₱—	₱299,666,264	₱299,666,264

(a) valued as of December 31, 2018

	Consolidated			
	2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements^(a)				
Financial assets at FVPL				
Held-for-trading				
Government bonds	₱5,792,345	₱119,314	₱—	₱5,911,659
Treasury notes	1,413,940	479,252	—	1,893,192
Treasury bills	315,996	1,709,371	—	2,025,367
Private bonds	2,663,397	—	—	2,663,397
Financial assets designated at FVPL	3,411,686	—	—	3,411,686
Derivative assets	—	333,587	—	333,587
AFS financial assets				
Government bonds	25,761,577	9,467,927	—	35,229,504
Quoted private bonds	11,051,657	38,781	—	11,090,438
Quoted equity shares	67,903	—	—	67,903
	₱50,478,501	₱12,148,232	₱—	₱62,626,733
Financial liabilities at FVPL				
Derivative liabilities	₱—	₱267,533	₱—	₱267,533
	₱—	₱267,533	₱—	₱267,533



	Consolidated			
	2017			
	Level 1	Level 2	Level 3	Total
Fair values of assets carried at amortized cost/cost^(a)				
HTM financial assets				
Government bonds	P51,488,294	P–	P–	P51,488,294
Private bonds	12,110,870	–	–	12,110,870
Loans and receivables				
Corporate and commercial loans	–	–	349,880,762	349,880,762
Consumer loans	–	–	74,207,566	74,207,566
Trade-related loans	–	–	12,041,107	12,041,107
Others	–	–	196,307	196,307
Sales contracts receivable	–	–	1,060,191	1,060,191
Investment properties ^(b)				
Land	–	–	7,091,280	7,091,280
Buildings and improvements	–	–	2,406,887	2,406,887
	P63,599,164	P–	P446,884,100	P510,483,264
Fair values of liabilities carried at amortized cost^(a)				
Deposit liabilities	P–	P–	P282,586,204	P282,586,204

(a) valued as of December 31, 2017

	Parent Company			
	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements^(a)				
Financial assets at FVPL				
Held-for-trading				
Government bonds	P492,521	P141,372	P–	P633,893
Treasury notes	–	838,662	–	838,662
Treasury bills	–	1,214,170	–	1,214,170
Private bonds	2,282,598	–	–	2,282,598
Quoted equity shares	1,312,625	–	–	1,312,625
Derivative assets	–	407,848	–	407,848
Financial assets at FVOCI				
Government bonds	3,033,686	5,107,673	–	8,141,359
Quoted private bonds	1,676	–	–	1,676
Quoted equity shares	51,610	–	–	51,610
	7,174,716	7,709,725	–	14,884,441
Financial liabilities at FVPL				
Derivative liabilities	–	455,150	–	455,150
	–	455,150	–	455,150
Fair values of assets carried at amortized cost/cost^(a)				
Investment securities at amortized cost				
Government bonds	P102,006,641	P–	P–	P102,006,641
Private bonds	52,509,703	–	–	52,509,703
Loans and receivables				
Corporate and commercial loans	–	–	357,613,633	357,613,633
Consumer loans	–	–	46,749,579	46,749,579
Trade-related loans	–	–	12,772,774	12,772,774
Others	–	–	45,185	45,185
Sales contracts receivable	–	–	178,486	178,486
Investment properties ^(b)				
Land	–	–	4,225,706	4,225,706
Buildings and improvements	–	–	974,119	974,119
	P154,516,344	P–	P422,559,482	P577,075,826
Fair values of liabilities carried at amortized cost				
Deposit liabilities	–	P–	P243,898,397	P243,898,397

(a) valued as of December 31, 2018



	Parent Company			
	2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements^(a)				
Financial assets at FVPL				
Held-for-trading				
Government bonds	₱5,757,518	₱119,314	₱—	₱5,876,832
Treasury notes	1,313,369	479,252	—	1,792,621
Treasury bills	315,996	1,709,371	—	2,025,367
Private bonds	2,616,730	—	—	2,616,730
Financial assets designated at FVPL	3,411,686	—	—	3,411,686
Derivative assets	—	333,587	—	333,587
(Forward)				
AFS financial assets				
Government bonds	22,905,417	9,467,927	—	32,373,344
Quoted private bonds	10,483,794	—	—	10,483,794
Quoted equity shares	67,903	—	—	67,903
	₱46,872,413	₱12,109,451	₱—	₱58,981,864
Financial liabilities at FVPL				
Derivative liabilities	₱—	₱267,533	₱—	₱267,533
	₱—	₱267,533	₱—	₱267,533
Fair values of assets carried at amortized cost/cost^(a)				
HTM financial assets				
Government bonds	₱48,754,016	₱—	₱—	₱48,754,016
Private bonds	11,354,669	—	—	11,354,669
Loans and receivables				
Corporate and commercial loans	—	—	315,853,285	315,853,285
Consumer loans	—	—	41,952,821	41,952,821
Trade-related loans	—	—	10,417,129	10,417,129
Others	—	—	63,198	63,198
Sales contracts receivable	—	—	200,134	200,134
Investment properties ^(b)				
Land	—	—	4,225,706	4,225,706
Buildings and improvements	—	—	970,099	970,099
	₱60,108,685	₱—	₱373,682,372	₱433,791,057
Fair values of liabilities carried at amortized cost			₱236,777,045	₱236,777,045
Deposit liabilities	₱—	₱—	₱236,777,045	₱236,777,045

(a) valued as of December 31, 2017

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 in 2018 and 2017.

The inputs used in the fair value measurement based on Level 2 are as follows:

Government securities - interpolated rates based on market rates of benchmark securities as of reporting date.

Private bonds and commercial papers - quoted market price of comparable investments with credit risk premium that is insignificant to the entire fair value measurement.

Derivative assets and liabilities - fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the reporting date, taking into account the remaining term to maturity of the derivative assets and liabilities.

Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 3 include risk-free rates and applicable risk premium.



The fair values of the Group's and Parent Company's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of investment properties held by the Group and the Parent Company:

	Valuation Techniques	Significant Unobservable Inputs
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence
Land and Building	Market Data Approach and Cost Approach	Reproduction Cost New

Description's of the valuation techniques and significant unobservable inputs used in the valuation of the Group and the Parent Company's investment properties are as follows:

Valuation Techniques

Market Data Approach A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.

Cost Approach It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.

Significant Unobservable Inputs

Reproduction Cost New The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.

Size Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.

Shape Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.

Location Location of comparative properties whether on a Main Road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a Main Road are superior to properties located along a secondary road.



Significant Unobservable Inputs

Time Element	“An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors’ perceptions of the market over time”. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

6. Financial Risk Management Objectives and Policies

The Group’s activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Group through a rigorous, comprehensive and continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits and thresholds, process controls and monitoring, and independent controls. As reflected in its corporate actions and organizational improvements, the Group has placed due importance on expanding and strengthening its risk management process and considers it as a vital component to the Group’s continuing profitability and financial stability. Central to the Group’s risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business viability and good financial position in the market.

The key financial risks that the Group faces are: credit risk, market risk (i.e. interest rate risk, foreign currency risk and equity price risk) and liquidity risk. The Group’s risk management objective is primarily focused on controlling and mitigating these risks. The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries, particularly CBSI, have their own risk management processes but are structured similar to that of the Parent Company. To a large extent, the respective risk management programs and objectives are the same across the Group. The gravity of the risks, the magnitude of the financial instruments involved, and regulatory requirements are primary considerations to the scope and extent of the risk management processes put in place for the subsidiaries.

Risk Management Structure

The BOD of the Parent Company is ultimately responsible for the oversight of the Parent Company’s risk management processes. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BODs. The BOD of the Parent Company created a separate board-level independent committee with explicit authority and responsibility for managing and monitoring risks.

The BOD has delegated to the Risk Oversight Committee (ROC) the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits and thresholds. The ROC is composed of three members of the BOD, two of whom are independent directors.



The Risk Management Group (RMG) is the direct support of the ROC in the day-to-day risk management and the implementation of the risk management strategies approved by the ROC. The implementation cuts across all departments of the Parent Company and involves all of the Parent Company's financial instruments, whether "on-books" or "off-books." The RMG is likewise responsible for monitoring the implementation of specific risk control procedures and enforcing compliance thereto. The RMG is also directly involved in the day-to-day risk measurement and monitoring to make sure that the Parent Company, in its transactions and dealings, engages only in acceptable and manageable financial risks. The RMG also ensures that risk measurements are accurately and completely captured on a timely basis in the management reporting system of the Parent Company. The RMG regularly reports the results of the risk measurements to the ROC. The RMG is headed by the Chief Risk Officer (CRO).

Apart from RMG, each business unit has created and put in place various process controls which ensure that all the external and internal transactions and dealings of the unit are in compliance with the unit's risk management objectives.

The Internal Audit Division also plays a crucial role in risk management primarily because it is independent of the business units and reports exclusively to the Audit Committee which, in turn, is comprised of independent directors. The Internal Audit Division focuses on ensuring that adequate controls are in place and on monitoring compliance to controls. The regular audit covers all processes and controls, including those under the risk management framework handled by the RMG. The audit of these processes and controls is undertaken at least annually. The audit results and exceptions, including recommendations for their resolution or improvement, are discussed initially with the business units concerned before these are presented to the Audit Committee.

Risk Management Reporting

The CRO and other members of the RMG report to the ROC and are a resource to the Management Committee (ManCom) on a monthly and a weekly basis, respectively. The CRO reports on key risk indicators and specific risk management issues that would need resolution from top management. This is undertaken after the risk issues and key risk indicators have been discussed with the business units concerned.

The key risk indicators were formulated on the basis of the financial risks faced by the Parent Company. The key risk indicators contain information from all business units that provide measurements on the level of the risks taken by the Parent Company in its products, transactions and financial structure. Among others, the report on key risk indicators includes information on the Parent Company's aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value-at-Risk (VaR) analysis, utilization of market and credit limits and thresholds, liquidity risk limits and ratios, overall loan loss provisioning and risk profile changes. Loan loss provisioning and credit limit utilization are, however, discussed in more detail in the Credit Committee. On a monthly basis, detailed reporting of single-name and sectoral concentration is included in the discussion with the ROC. On the other hand, the Chief Audit Executive reports to the Audit Committee on a monthly basis on the results of branch or business unit audits and for the resolution of pending but important internal audit issues.

Risk Mitigation

The Parent Company uses derivatives to manage exposures in its financial instruments resulting from changes in interest rates and foreign currencies exposures. However, the nature and extent of use of these financial instruments to mitigate risks are limited to those allowed by the BSP for the Parent Company and its subsidiaries.



To further mitigate risks throughout its different business units, the Parent Company formulates risk management policies and continues to improve its existing policies. These policies further serve as the framework and set of guidelines in the creation or revisions of operating policies and manuals for each business unit. In the process design and implementation, preventive controls are preferred over detection controls. Clear delineation of responsibilities and separation of incompatible duties among officers and staff, as well as, among business units are reiterated in these policies. To the extent possible, reporting and accounting responsibilities are segregated from units directly involved in operations and front line activities (i.e., players must not be scorers). This is to improve the credibility and accuracy of management information. Any inconsistencies in the operating policies and manuals with the risk framework created by the RMG are taken up and resolved in the ROC and ManCom.

Based on the approved Operational Risk Assessment Program, RMG spearheaded the bankwide (all Head Office units and branches) risk identification and self-assessment process. This would enable determination of priority risk areas, assessment of mitigating controls in place, and institutionalization of additional measures to ensure a controlled operating environment. RMG was also mandated to maintain and update the Parent Company's Centralized Loss Database wherein all reported incidents of losses shall be encoded to enable assessment of weaknesses in the processes and come up with viable improvements to avoid recurrence.

Monitoring and controlling risks are primarily performed based on various limits and thresholds established by the top management covering the Group's transactions and dealings. These limits and thresholds reflect the Group's business strategies and market environment, as well as, the levels of risks that the Group is willing to tolerate, with additional emphasis on selected industries. In addition, the Parent Company monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Liquidity and interest rate risk exposures are measured and monitored through the Maximum Cumulative Outflow and Earnings-at-Risk reports from the Asset and Liability Management (ALM) system. It was implemented in 2013 and was upgraded in 2017 to a new version which include modules for calculating Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The system also has a Funds Transfer Pricing module used by the Treasury Group and Corporate Planning Group.

For the measurement of market risk exposures, the Bank uses Historical Simulation VaR approach for all treasury traded instruments, including fixed income bonds, foreign exchange swaps and forwards, interest rate swaps and equity securities. Market risk exposures are measured and monitored through reports from the Market Risk Management System which has been implemented in 2017 to enhance risk measurement and automate daily reporting.

BSP issued Circular No. 639 dated January 15, 2009 which mandated the use of the Internal Capital Adequacy Assessment Process (ICAAP) by all universal and commercial banks to determine their minimum required capital relative to their business risk exposures. In this regard, the Board approved the engagement of the services of a consultant to assist in the bank-wide implementation and embedding of the ICAAP, as provided for under Pillar 2 of Basel II and BSP Circular No. 639.

On April 5, 2018, the BOD approved the inclusion of cybersecurity as part of the priority risks related to Information Technology. This is in addition to the priority risks set in the 2009 Risk Self-assessment Survey and voting conducted among selected members of the BOD and Senior Management which were retained on the basis that there is no significant change in either the business model of the Bank or its ownership structure. In addition, the BOD also approved the changes in the trigger events for the review of Capital Ratios MAT and the retention of the



methodology for the CET1 ratio limit and the Management Action Trigger (MAT) on capital ratios. There were no changes made in the approved trigger events for the review of Priority Risks.

The Parent Company submitted its annually updated ICAAP document, in compliance with BSP requirements on March 27, 2018. The document disclosed that the Parent Company has an appropriate level of internal capital relative to the Group's risk profile.

For the ICAAP document submitted on March 27, 2018, the Parent Company retained the Pillar 1 Plus approach using the Pillar 1 capital as the baseline. The process of allocating capital for all types of risks above the Pillar 1 capital levels includes quantification of capital buffer for Pillar 2 risks under normal business cycle/condition, in addition to the quantification based on the results of the Integrated Stress Test (IST). The adoption of the IST allows the Parent Company to quantify its overall vulnerability to market shocks and operational losses in a collective manner driven by events rather than in silo. The capital assessment in the document discloses that the Group and the Parent Company has appropriate and sufficient level of internal capital.

Credit Risk

Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items

Credit risk is the risk of financial loss on account of a counterparty to a financial product failing to honor its obligation. The Group faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (i.e., investment securities issued by either sovereign or corporate entities) or enters into either market-traded or over-the-counter derivatives, through implied or actual contractual agreements (i.e., on or off-balance sheet exposures). The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction).

The Group established risk limits and thresholds for purposes of monitoring and managing credit risk from individual counterparties and/or groups of counterparties, as well as major industries. It also conducts periodical assessment of the creditworthiness of its counterparties. In addition, the Group obtains collateral where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

The Parent Company has four credit risk rating models in place: for corporate borrowers, for non-consumer individual borrowers and small & medium enterprises (SMEs), for financial institutions, for sovereign / country exposures. In addition, it also has three scoring models: for auto and housing loan applicants, and for credit card applicants.

In compliance with BSP requirements, the Group established an internal Credit Risk Rating System (ICRRS) for the purpose of measuring credit risk for corporate borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information for business and financial decision making. The ICRRS covers corporate borrowers with total assets, total facilities, or total credit exposures amounting to ₱15.00 million and above.

Further, the ICRRS was designed within the technical requirements defined under BSP Circular No. 439. It has two components, namely: a) Borrower Risk Rating which provides an assessment of the creditworthiness of the borrower, without considering the proposed facility and security arrangements, and b) Loan Exposure Ratio which provides an assessment of the proposed facilities as mitigated or enhanced by security arrangements. The ICRRS rating scale consists of ten grades, six of which fall under unclassified accounts, with the remaining four falling under classified accounts in accordance with regulatory provisioning guidelines.



On March 5, 2014, the Parent Company approved the engagement of a third-party consultant, Moody's Analytics, for the quantitative and qualitative validation of the ICRRS. The validation engagement was completed in December 2014 followed by the model recalibration, closing the project in December 2016.

The Parent Company launched in 2011 the Borrower Credit Score (BCS), a credit scoring system designed for retail small and medium entities and individual loan accounts. In 2017, RMG completed the statistical validation of the BCS using the same methodology applied to the validation of the corporate risk rating model. The validation process was conducted with the assistance of Teradata which provided the analytics platform, tools and technical guidance for both credit model performance assessment and recalibration.

The CAMELOT rating system was approved by the BOD in 2006 to specifically assess Philippine universal, commercial and thrift banks. In 2009, the Bank implemented the rating system for rural and cooperative banks as well as the rating system for foreign financial institutions.

The Parent Company also developed a Sovereign Risk Rating Model, which provided the tool for the Bank to assess the strength of the country rated in reference to its economic fundamentals, fiscal policy, institutional strength, and vulnerability to extreme events. The Model was approved by the Board on September 7, 2017.

The scorecards for auto and housing loans were officially launched in November 2016, adopting the models developed by CBS with a third-party consultant, and utilizing internally developed software interfaces for their implementation.

For the Bank's credit cards, an acquisition scorecard has been created to determine application acceptance and has been in place since the launch of the credit card business.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Parent Company's policies and procedures include specific guidelines focusing on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The distribution of the Group's and Parent Company's assets and liabilities, and credit commitment items (Note 30) by geographic region as of December 31, 2018 and 2017 (in millions) follows:

	Consolidated					
	2018			2017		
	Assets	Liabilities	Commitment	Assets	Liabilities	Commitment
Geographic Region						
Philippines	₱741,331	₱743,613	₱87,789	₱711,801	₱651,283	₱58,136
Asia	14,965	1,386	27,313	8,530	3,850	20,151
Europe	18,411	2,859	3,634	5,442	2,952	5,431
United States	68,277	21,107	2,548	499	6,616	2,794
Others	1,313	5,821	38	3,603	—	4
	₱844,297	₱774,786	₱121,322	₱729,875	₱664,701	₱86,516



	Parent Company					
	2018			2017		
	Assets	Liabilities	Commitment	Assets	Liabilities	Commitment
Geographic Region						
Philippines	₱689,382	₱660,706	₱87,077	₱629,802	₱572,601	₱55,501
Asia	14,965	1,386	27,313	6,905	3,740	20,151
Europe	18,411	2,859	3,634	5,442	2,952	5,431
United States	28,369	17,638	2,548	405	6,616	2,794
Others	1,313	5,821	38	3,603	—	4
	₱ 752,440	₱688,410	₱120,610	₱646,157	₱585,909	₱83,881

Information on credit concentration as to industry of loans and receivables is presented in Note 10 to the financial statements.

Maximum exposure to credit risk

The tables below provide the analysis of the maximum exposure to credit risk of the Group and the Parent Company's financial instruments, excluding those where the carrying values as reflected in the balance sheets and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements:

	Consolidated		
	2018		
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	₱505,804,955	₱275,165,316	₱230,639,639
Interbank loans receivable and SPURA	10,000,000	—	10,000,000
Sales contracts receivable	1,040,939	—	1,040,939
	₱516,845,894	₱275,165,316	₱240,680,578

	Consolidated		
	2017		
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	₱448,970,942	₱237,847,050	₱211,123,892
Interbank loans receivable and SPURA	18,751,845	1,865	18,749,980
Sales contracts receivable	894,843	—	894,843
	₱468,617,630	₱237,848,915	₱230,768,715

	Parent Company		
	2018		
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	₱441,432,156	₱249,012,090	₱192,420,066
Interbank loans receivable and SPURA	7,000,000	—	7,000,000
Sales contracts receivable	199,692	—	199,962
	₱448,631,848	₱249,012,090	₱199,619,758



Parent Company			
2017			
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	₱386,554,498	₱229,957,505	₱126,596,993
Interbank loans receivable and SPURA	17,347,522	2,000	17,345,522
Sales contracts receivable	184,091	–	184,091
	₱404,086,111	₱229,960,505	₱144,216,606

For the Group, the fair values of collateral held for loans and receivables and sales contracts receivable amounted to ₱338.60 billion and ₱1.60 billion, respectively, as of December 31, 2018 and ₱330.43 billion and ₱1.34 billion, respectively, as of December 31, 2017.

For the Parent Company, the fair values of collateral held for loans and receivables and sales contracts receivable amounted to ₱302.16 billion and ₱1.47 billion, respectively, as of December 31, 2018 and ₱294.54 billion and ₱1.04 billion, respectively, as of December 31, 2017.

Credit risk, in respect of derivative financial products, is limited to those with positive fair values, which are included under financial assets at FVPL (Note 9). As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 30 to the financial statements.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented with regard to the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions - cash or securities
- For consumer lending - real estate and chattel over vehicle
- For corporate lending and commercial lending- real estate, chattel over properties, assignment of deposits, shares of stocks, bonds, and guarantees

Management requests additional collateral in accordance with the underlying agreement and takes into consideration the market value of collateral during its review of the adequacy of allowance for credit losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In most cases, the Parent Company does not occupy repossessed properties for business use.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using an internal credit rating system for the purpose of measuring credit risk in a consistent manner as accurately as possible. The model on risk ratings is assessed regularly because the Group uses this information as a tool for business and financial decision making. Aside from the periodic review by the Bank's Internal Audit Group, the Bank likewise engaged the services of third-party consultants in 2014, 2015, and 2016 for purposes of conducting an independent validation of the credit risk rating model.



It is the Parent Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks 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 attributable risk ratings are assessed and monitored regularly. The standard credit rating equivalent grades are relevant only for certain exposures in each risk rating class.

The following table shows the description of the internal CRRS grade:

CRRS Grade	Description
1	Excellent
2	Strong
3	Good
4	Satisfactory
5	Acceptable
6	Watchlist
7	Especially Mentioned
8	Substandard
9	Doubtful
10	Loss

The credit grades are defined as follows:

Excellent - This category applies to a borrower with a very low probability of going into default in the coming year. The borrower has a high degree of stability, substance, and diversity. It has access to raise substantial amounts of funds through the public markets at any time. The borrower has a very strong debt service capacity and a conservative use of balance sheet leverage. The track record in profit terms is very good. The borrower is of highest quality under virtually all economic conditions.

Strong - This category applies to a borrower with a low probability of going into default in the coming year. The borrower normally has a comfortable degree of stability, substance, and diversity. Under normal market conditions, the borrower in this category has good access to public markets to raise funds. The borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is deemed very strong; the critical balance sheet ratios (vis-à-vis industry) are conservative.

Good - This category covers the smaller corporations with limited access to public capital markets or access to alternative financial markets. This access is however limited to favorable economic and/or market conditions. Typical for this type of borrower is the combination of comfortable asset protection and acceptable balance sheet structure (vis-à-vis industry). The debt service capacity, as measured based on cash flows, is strong.

Satisfactory - This category represents the borrower where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. The borrower in this category normally has limited access to public financial markets. The borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profits for the past fiscal year and is expected to report a profit in the current year.



Acceptable - The risk elements for the Parent Company are sufficiently pronounced, although the borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

Watchlist - This category represents the borrower for which unfavorable industry or company-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. The borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility. It includes the borrower where the credit exposure is not a risk of loss at the moment, but the performance of the borrower has weakened, and unless present trends are reversed, could lead to losses.

Especially Mentioned - This category applies to the borrower that is characterized by a reasonable probability of default, manifested by some or all the following: (a) evidence of weakness in the borrower's financial condition or creditworthiness; (b) unacceptable risk is generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned; (c) the borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardized; (d) the borrower is expected to have financial difficulties and exposure may be at risk. Closer account management attention is warranted.

Concerted efforts should be made to improve lender's position (e.g., demanding additional collateral or reduction of account exposure). These potential weaknesses, if left uncorrected or unmitigated, would affect the repayment of the loan and, thus, increase credit risk to the Parent Company.

Substandard - This category represents the borrower where one or more of the following factors apply: (a) the collection of principal or interest becomes questionable regardless of scheduled payment date, by reason of adverse developments on account of a financial, managerial, economic, or political nature, or by important weaknesses in cover; (b) the probability of default is assessed at up to 50%. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company because of unfavorable record or unsatisfactory characteristics. There exists in such loans the possibility of future loss to the Parent Company unless given closer supervision.

Doubtful - This category includes the borrower with "non-performing loan" status or with any portion of interest and/or principal payment is in arrears for more than ninety (90) days. The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful. Doubtful loans are loans or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

Loss - This category represents the borrower whose prospect for re-establishment of creditworthiness and debt service is remote. It also applies where the Parent Company will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the borrower's business. These are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.



The ratings of the borrowers covered by the BCS were mapped to the abovementioned CRRS grades in accordance with the approved guidelines by the BOD, as follows:

BCS Results	CRRS Grade	Description
> 98 to 100 points	3	Good
> 95 to 98 points	4	Satisfactory
> 87 to 95 points	5	Acceptable
> 83 to 87 points	6	Watchlist
80 to 83 points	7	Especially Mentioned
76 to < 80 points	8	Substandard
72 to < 76 points	9	Doubtful
68 to < 72 points	10	Loss

The Group's loans and receivables from customers were classified according to credit quality as follows:

Credit Quality Rating	Criteria
Neither Past Due Nor Impaired	
High	Loans with risk rating of 1 and 2
Standard	Loans with risk rating of 3 to 5
Sub-Standard	Generally, loans with risk rating of 6 to 8
Past Due and Impaired	
Past Due but not Impaired	Those that were classified as Past Due per BSP guidelines or those that are still in current status but have objective evidence of impairment; Generally, loans with risk rating of 9 to 10
Impaired	

For consumer loans (i.e., auto, housing, credit card) that are covered by application scorecards which provide either a pass/fail score, the basis for credit quality rating is the BSP classification and/or the status of the account.

The financial assets are also grouped according to stage whose description is explained as follows:

Stage 1 - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.



The following tables illustrate the Group's and the Parent Company's credit exposures.

Consolidated		2018			2017
Corporate and commercial lending	ECL Staging			Total	Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
Neither past due nor impaired					
High grade	₱65,022	₱-	₱-	₱65,022	₱56,547
Standard grade	234,159	2,341	-	236,500	222,688
Sub-Standard	90,877	14,428	-	105,305	81,679
Unrated	438	8	-	446	1,654
Past due but not impaired	44	648	-	692	2,341
Past due and impaired	-	-	3,835	3,835	4,235
Gross carrying amount	₱390,541	₱17,425	₱3,835	₱411,800	₱369,144

Consolidated		2018			2017
Consumer Lending	ECL Staging			Total	Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
Neither past due nor impaired					
High grade	₱32,661	₱-	₱-	₱32,661	₱28,208
Standard grade	44,389	600	-	44,988	6,650
Sub-Standard	1,309	563	-	1,872	4,088
Unrated	1,782	1,613	-	3,395	31,631
Past due but not impaired	551	435	-	986	3,149
Past due and impaired	-	-	3,313	3,313	134
Gross carrying amount	₱80,692	₱3,211	₱3,313	₱87,215	₱73,860

Consolidated		2018			2017
Trade-related Lending	ECL Staging			Total	Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
Neither past due nor impaired					
High grade	₱1,239	₱-	₱-	₱1,239	₱2,397
Standard grade	9,371	9	-	9,381	8,117
Sub-Standard	1,500	1,675	-	3,175	1,671
Unrated	-	-	-	-	-
Past due but not impaired	0	-	-	0	37
Past due and impaired	-	-	23	23	28
Gross carrying amount	₱12,110	₱1,684	₱23	₱13,818	₱12,250

Consolidated		2018			2017
Others	ECL Staging			Total	Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
Neither past due nor impaired					
High grade	₱12	₱-	₱-	₱12	₱317
Standard grade	0	-	-	0	1
Sub-Standard	0	-	-	0	-
Unrated	39	-	-	39	212
Past due but not impaired	1	5	-	5	5
Past due and impaired	-	-	-	-	8
Gross carrying amount	₱52	₱5	₱-	₱ -	₱365

Parent Company		2018			2017
Corporate and commercial lending	ECL Staging			Total	Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
Neither past due nor impaired					
High grade	₱38,025	₱-	₱-	₱38,025	₱27,318
Standard grade	234,159	2,341	-	236,500	222,621
Sub-Standard	90,869	14,428	-	105,297	81,297
Unrated	438	8	-	446	1,654
Past due but not impaired	44	25	-	69	1,395
Past due and impaired	-	-	1,068	1,068	2,867
Gross carrying amount	₱363,535	₱16,801	₱1,068	₱ 381,404	₱337,152



Parent Company					2017
2018					
	ECL Staging			Total	Total
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL		
Consumer Lending					
Neither past due nor impaired					
High grade	₱18	₱-	₱-	₱18	₱16
Standard grade	44,287	600	-	44,887	6,538
Sub-Standard	1,271	563	-	1,833	4,083
Unrated	1,782	1,613	-	3,395	31,631
Past due but not impaired	551	49	-	600	1,636
Past due and impaired	-	-	1,952	1,952	133
Gross carrying amount	₱47,908	₱2,824	₱1,952	₱52,685	₱44,037
Trade-related Lending					
Neither past due nor impaired					
High grade	₱359	₱-	₱-	₱359	₱835
Standard grade	9,371	9	-	9,381	8,118
Sub-Standard	1,500	1,675	-	3,175	1,670
Unrated	-	-	-	-	-
Past due but not impaired	0	-	-	0	37
Past due and impaired	-	-	23	23	28
Gross carrying amount	₱11,230	₱1,684	₱23	₱12,938	₱10,688
Others					
Neither past due nor impaired					
High grade	₱-	₱-	₱-	₱-	₱-
Standard grade	-	-	-	-	1
Sub-Standard	-	-	-	-	-
Unrated	39	-	-	39	53
Past due but not impaired	1	-	-	1	-
Past due and impaired	-	-	-	-	-
Gross carrying amount	₱40	₱-	₱-	₱40	₱54

Depository accounts with the BSP and counterparty banks, Trading and Investment Securities
For these financial assets, outstanding exposure is rated primarily based on external risk rating (i.e. Standard and Poor's (S&P), otherwise, rating is based on risk grades by a local rating agency or included under "Unrated", when the counterparty has no available risk grade.

The external risk rating of the Group's depository accounts with the BSP and counterparty banks, trading and investment securities, is grouped as follows:

Credit Quality Rating	External Credit Risk Rating	Credit Rating Agency
High grade	AAA, AA+, AA, AA-	S&P
	Aaa, Aa1, Aa2, Aa3	Moody's
	AAA, AA+, AA, AA-	Fitch
Standard grade	A+, A, A-, BBB+, BBB, BBB-	S&P
	A1, A2, A3, Baa1, Baa2, Baa3	Moody's
	A+, A, A-, BBB+, BBB, BBB-	Fitch
Substandard grade	BB+, BB, BB-, B/B+, CCC, R, SD & D	S&P
	Ba1, Ba2, Ba3, B1, B2, R, SD & D	Moody's
	BB+, BB, BB-, B/B+, CCC, R, SD & D	Fitch



Following is the credit rating scale applicable for foreign banks, and government securities (aligned with S&P ratings):

AAA – An obligor has extremely strong capacity to meet its financial commitments.

AA – An obligor has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors at a minimal degree.

A – An obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB and below:

BBB – An obligor has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB – An obligor is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

B – An obligor is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC – An obligor is currently vulnerable and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments.

CC – An obligor is currently vulnerable. The rating is used when a default has not yet occurred, but expects default to be a virtual certainty, regardless of the anticipated time to default.

R – An obligor is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others.

SD and D – An obligor is in default on one or more of its financial obligations including rated and unrated financial obligations but excluding hybrid instruments classified as regulatory capital or in non-payment according to terms.

Due from other banks and government securities

The external risk rating of the Group's depository accounts with counterparty banks, trading and investment securities, is grouped as follows (aligned with the Philippine Ratings System):

Credit Quality Rating	External Credit Risk Rating
High grade	PRSAAA, PRSAa+, PRSAa, PRSAa-
Standard grade	PRSA+, PRSA, PRSA-, PRSBaa+, PRSBaa, PRSBaa-
Substandard grade	PRSBa+, PRSBa, PRSBa-, PRSB+, PRSB, PRSB-, PRSCaa+, PRSCaa, PRSCaa-, PRSCa+, PRSCa, PRSCa-, PRSC+, PRSC, PRSC-



PRSAaa – The obligor’s capacity to meet its financial commitment on the obligation is extremely strong.

PRSAa – The obligor’s capacity to meet its financial commitment on the obligation is very strong.

PRSA – With favorable investment attributes and are considered as upper-medium grade obligations. Although obligations rated ‘PRSA’ are somewhat more susceptible to the adverse effects of changes in economic conditions, the obligor’s capacity to meet its financial commitments on the obligation is still strong.

PRSBaa – An obligation rated ‘PRSBaa’ exhibits adequate protection parameters. However, adverse economic conditions and changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. PRSBaa-rated issues may possess certain speculative characteristics.

PRSBa – An obligation rated ‘PRSBa’ is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties relating to business, financial or economic conditions, which could lead to the obligor’s inadequate capacity to meet its financial commitment on the obligation.

PRSB – An obligation rated ‘PRSB’ is more vulnerable to nonpayment than obligations rated ‘PRSBa’, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse economic conditions will likely impair the obligor’s capacity to meet its financial commitment on the obligation. The issue is characterized by high credit risk.

PRSCaa – An obligation rated ‘PRSCaa’ is presently vulnerable to nonpayment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. The issue is considered to be of poor standing and is subject to very high credit risk.

PRSCa – An obligation rated “PRSCa” is presently highly vulnerable to nonpayment. Likely already in or very near default with some prospect for partial recovery of principal or interest.

PRSC – An obligation is already in default with very little prospect for any recovery of principal or interest.

The succeeding tables show the credit exposure of the Group and the Parent Company related to these financial assets.

Consolidated	2018				2017
	ECL Staging			Total	Total
	Stage 1	Stage 2	Stage 3		
<u>Investment securities at</u>	12-month ECL	Lifetime ECL	Lifetime ECL		
<u>amortized cost</u>					
Neither past due nor impaired					
High grade	₱7,913	₱108	₱-	₱8,021	₱320
Standard grade	111,072	-	-	111,072	57,917
Sub-Standard	1,703	-	-	1,703	1,416
Unrated	40,765	1,396	152	42,313	-
Gross carrying amount	₱161,454	₱1,503	₱152	₱163,109	₱59,653



Consolidated		2018			2017
		ECL Staging			
		Stage 1	Stage 2	Stage 3	Total
Financial assets at FVOCI		12-month ECL	Lifetime ECL	Lifetime ECL	Total
Neither past due nor impaired					
High grade	₱674	₱-	-	₱674	₱8,062
Standard grade	9,371	-	-	9,371	28,528
Sub-Standard	-	-	-	-	1,515
Unrated	55	2	-	56	-
Past due but not impaired	10,100	2	-	10,102	38,105
Past due and impaired	674	-	-	674	8,062
Gross carrying amount	₱10,100	₱2	₱-	₱10,102	₱38,105

Consolidated		2018			
		High Grade	Standard Grade	Substandard Grade	Unrated
Due from BSP	₱-	₱101,890	₱-	₱-	₱101,890
Due from other banks	944	8,303	17	-	9,264
Interbank loans receivable and SPURA	-	10,000	-	-	10,000
Financial assets at FVPL	911	4,100	53	-	5,064
	₱1,855	₱124,293	₱70	₱-	₱126,218

Consolidated		2017			
		High Grade	Standard Grade	Substandard Grade	Unrated
Due from BSP	₱-	₱98,490	₱-	₱-	₱98,490
Due from other banks	4,245	10,787	13	4,245	15,045
Interbank loans receivable and SPURA	-	18,752	-	-	18,752
Financial assets at FVPL	1,194	10,013	85	1,194	11,292
	₱5,439	₱138,042	₱98	₱5,439	₱143,579

Parent Company		2018			2017
		ECL Staging			
Investment securities at amortized cost		Stage 1	Stage 2	Stage 3	Total
		12-month ECL	Lifetime ECL	Lifetime ECL	Total
Neither past due nor impaired					
High grade	₱7,235	₱108	₱-	₱7,343	₱8,062
Standard grade	103,873	-	-	103,873	25,672
Sub-Standard	1,303	-	-	1,303	1,485
Unrated	40,765	1,396	-	42,161	-
Gross carrying amount	₱153,176	₱1,503	₱-	₱154,679	₱35,219

Parent Company		2018			2017
		ECL Staging			
Financial assets at FVOCI		Stage 1	Stage 2	Stage 3	Total
		12-month ECL	Lifetime ECL	Lifetime ECL	Total
Neither past due nor impaired					
High grade	₱15	₱-	₱-	₱15	₱320
Standard grade	8,141	-	-	8,141	55,182
Sub-Standard	-	-	-	-	1,166
Unrated	55	2	-	56	-
Past due but not impaired	8,211	2	-	8,213	56,668
Past due and impaired	15	-	-	15	320
Gross carrying amount	₱8,141	₱-	₱-	₱8,141	₱55,182

Parent Company		2018			
		High Grade	Standard Grade	Substandard Grade	Unrated
Due from BSP	₱-	₱95,093	₱-	₱-	₱95,093
Due from other banks	696	7,119	17	7	7,838
Interbank loans receivable and SPURA	-	7,000	-	-	7,000
Financial assets at FVPL	1,447	4,100	-	1,143	6,690
	₱2,143	₱113,312	₱17	₱1,150	₱116,621



Parent Company	2017				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Due from BSP	P–	P91,717	P–	P–	P91,717
Due from other banks	4,124	9,921	13	–	14,058
Interbank loans receivable and SPURA	–	17,348	–	–	17,348
Financial assets at FVPL	1,194	9,877	85	–	11,156
	P5,318	P128,863	P98	P–	P134,279

The tables below show the aging analysis of gross past due but not impaired loans and receivables that the Group and Parent Company held as of December 31, 2018 and 2017 (in millions). Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

December 31, 2018	Consolidated				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Loans and receivables					
Corporate and commercial lending	P250	P40	P23	P380	P692
Consumer lending	718	41	19	208	986
Trade-related lending	–	–	–	–	–
Others	1	–	–	5	5
Total	P969	P80	P42	P593	P1,684

December 31, 2017	Consolidated				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Loans and receivables					
Corporate and commercial lending	P919	P186	P296	P940	P2,341
Consumer lending	120	148	366	2,515	3,149
Trade-related lending	5	2	30	–	37
Others	–	–	–	27	27
Total	P1,044	P336	P692	P3,482	P5,554

December 31, 2018	Parent Company				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Loans and receivables					
Corporate and commercial lending	P1	P2	P–	P66	P69
Consumer lending	600	–	–	–	600
Trade-related lending	–	–	–	–	–
Others	1	–	–	–	1
Total	P602	P2	P–	P66	P669

December 31, 2017	Parent Company				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Loans and receivables					
Corporate and commercial lending	P872	P122	P211	P189	P1,394
Consumer lending	105	127	196	1,208	1,636
Trade-related lending	6	2	30	–	38
Total	P983	P251	P437	P1,398	P3,068



The following table presents the carrying amount of financial assets of the Group and Parent Company as of December 31, 2018 and 2017 that would have been considered past due or impaired if not renegotiated:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Loans and advances to customers				
Corporate and commercial lending	₱507,921	₱807,247	₱40,029	₱224,74
Consumer lending	110,885	42,487	110,885	37,587
Total renegotiated financial assets	₱618,805	₱849,734	₱150,914	₱262,330

Impairment assessment (Prior to adoption of PFRS 9)

The main considerations for the loan impairment assessment include whether any payment of principal or interest is overdue by more than 90 days, or there are 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: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment yet. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment yet per an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Impairment assessment (PFRS 9)

The Group recognizes a credit loss allowance on a financial asset based on whether it has had a significant increase in credit risk since initial recognition. Accordingly, the Group categorizes its financial assets into three categories: stage 1 – financial asset that has not had a significant increase in credit risk; stage 2 – financial asset that has had a significant increase in credit risk; and stage 3 – financial asset in default.



Generally, the Group assesses the presence of a significant increase in credit risk based on the number of notches that a financial asset's credit risk rating has declined. When applicable, the Group also applies a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Further, the Group considers a financial asset as in default when (a) as a result of one or more loss events, there is objective evidence that its recoverable value is less than its carrying amount; (b) it is classified as doubtful or loss under prudential reporting; (c) it is in litigation; and/or (d) full repayment of principal and interest is unlikely without foreclosure of collateral, if any. When applicable, the Group also applies a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Group then measures the credit loss allowance on a financial instrument at an amount equal to 12-month expected credit losses for items categorized as stage 1 and lifetime credit losses to items categorized as stage 2 and stage 3.

The Group modeled the following inputs to the expected credit loss formula separately. The formula is applied to each financial asset, with certain exceptions wherein a collective or other general approach is applied:

Exposure at Default (EAD)

The Group defines EAD as the principal and interests that would not be collected assuming the borrower's defaults during a future point in time. The Bank computes for a financial asset's EAD using the expected contractual cash flows during the contractual life of the financial instrument. A financial asset's EAD is defined as the sum of EAD from principal and EAD from interest.

Probability of default (PD)

The Group uses forward-looking PD estimates that are unbiased and probability-weighted using a range of possible outcomes. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio. The Group's PDs are mainly categorized into three: (a) corporate; (b) sovereign; and (c) retail.

Loss given default (LGD)

The Group's LGD model considers certain factors such as the historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. Generally, the model utilizes the Bank's existing loan exposure rating system which is designed to capture these factors as well as the characteristics of collaterals related to an exposure. In cases wherein this does not apply, the Group looks into the standard characteristics of collaterals (e.g., car and housing loans) in order to estimate an LGD factor. In the case of exposures without collaterals (e.g., securities), the Group uses internationally-accepted standard LGD factors.

Credit Review

In accordance with BSP Circular 855, credit reviews are conducted on loan accounts to evaluate whether loans are granted in accordance with the Bank's policies, to assess loan quality and appropriateness of classification and adequacy of loan loss provisioning. Results of credit reviews



are promptly reported to management to apprise them of any significant findings for proper corrective actions.

Market Risk

Market risk is the risk of loss that may result from changes in the value of a financial product. The Parent Company's market risk originates from its holdings of domestic and foreign-denominated debt securities, foreign exchange instruments, equities, foreign exchange derivatives and interest rate derivatives.

The RMG of the Parent Company is responsible for assisting the ROC with its responsibility for identifying, measuring, managing and controlling market risk. Market risk management measures the Parent Company market risk exposures through the use of VaR. VaR is a statistical measure that estimates the maximum potential loss from a portfolio over a holding period, within a given confidence level.

VaR assumptions

The Parent Company calculates the VaR in trading activities. The Parent Company uses the Historical Simulation Full Valuation approach to measure VaR for all treasury traded instruments, using a 99.00% confidence level and a 1-day holding period.

The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days. The validity of the VaR model is verified through back testing, which examines how frequently actual and hypothetical daily losses exceeds daily VaR. The Parent Company measures and monitors the VaR and profit and loss on a daily basis.

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established for all trading positions and exposures are reviewed daily against the limits by management. Further, stress testing is performed for monitoring extreme events.

Limitations of the VaR Methodology

The VaR models are designed to measure market risk in a normal market environment using equally weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow the same 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 if changes in risk factors fail to align with the assumptions. VaR may also be under- or over-estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Group would withstand an extreme market event.



A summary of the VaR position of the trading portfolio of the Parent Company is as follows:

	Interest Rate ¹	Foreign Exchange ²	Price ³	Interest Rate ⁴	Interest Rate ⁵
	(In Millions)				
2018					
31 December	₱43.62	₱4.54	₱21.78	₱13.78	₱10.65
Average daily	52.11	18.69	30.17	6.35	4.40
Highest	121.89	63.74	56.30	13.78	19.03
Lowest	21.47	2.53	18.29	3.18	0.60
2017					
31 December	₱120.05	₱7.78	₱45.24	₱4.00	₱1.76
Average daily	82.27	28.20	23.34	3.78	5.29
Highest	146.71	73.74	46.21	6.97	9.21
Lowest	37.58	2.99	3.43	1.44	1.48

¹ Interest rate VaR for debt securities (Interest rate VaR for foreign currency denominated debt securities are translated to PHP using daily closing rate)

² FX VaR is the bankwide foreign exchange risk

³ Price VaR for equity securities and futures

⁴ Interest rate VaR for FX swaps and FX forwards

⁵ Interest rate VaR for IRS

Interest Rate Risk

The Group's interest rate risk originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. The Parent Company follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors its assets and liabilities.

As of December 31, 2018 and 2017, 64.57% and 64.76% of the Group's total loan portfolio, respectively, comprised of floating rate loans which are repriced periodically by reference to the transfer pool rate which reflects the Group's internal cost of funds. In keeping with banking industry practice, the Group aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers.

Interest is paid on demand accounts, which constituted 22.81% and 24.29% of total deposits of the Parent Company as of December 31, 2018 and 2017, respectively.

Interest is paid on savings accounts and time deposits accounts, which constitute 35.56% and 41.64%, respectively, of total deposits of the Parent Company as of December 31, 2018, and 29.72% and 45.99%, respectively, as of December 31, 2017.

Savings account interest rates are set by reference to prevailing market rates, while interest rates on time deposits and special savings accounts are usually priced by reference to prevailing rates of short-term government bonds and other money market instruments, or, in the case of foreign currency deposits, inter-bank deposit rates and other benchmark deposit rates in international money markets with similar maturities.

The Group is likewise exposed to fair value interest rate risk due to its holdings of fixed rate government bonds as part of its financial assets at FVOCI/AFS and FVPL portfolios. Market values of these investments are sensitive to fluctuations in interest rates.



The following table provides for the average effective interest rates of the Group and of the Parent Company as of December 31, 2018 and 2017:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Peso				
Assets				
Due from BSP	0.17%	0.13%	0.06%	0.13%
Due from banks	0.26%	0.24%	0.11%	0.19%
Investment securities*	4.52%	4.21%	4.36%	4.10%
Loans and receivables	7.26%	5.53%	6.18%	5.22%
Liabilities				
Deposit liabilities	1.96%	1.15%	1.71%	1.04%
Bills payable	3.59%	2.99%	3.59%	2.99%
USD				
Assets				
Due from banks	0.75%	0.17%	0.61%	0.16%
Investment securities*	4.16%	3.60%	3.88%	3.61%
Loans and receivables	4.07%	3.40%	3.93%	3.40%
Liabilities				
Deposit liabilities	1.48%	1.13%	1.45%	1.12%
Bills payable	2.89%	1.94%	2.86%	1.94%

* Consisting of financial assets at FVPL, Financial assets at FVOCI and Investment securities at amortized cost.

The asset-liability gap analysis method is used by the Group to measure the sensitivity of its assets and liabilities to interest rate fluctuations. This analysis measures the Group's susceptibility to changes in interest rates. The repricing gap is calculated by first distributing the assets and liabilities contained in the Group's balance sheet into tenor buckets according to the time remaining to the next repricing date (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and the total of repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier than its interest rate sensitive liabilities, restraining the growth of its net income or resulting in a decline in net interest income.



The following tables set forth the repricing gap position of the Group and Parent Company as of December 31, 2018 and 2017 (in millions):

	Consolidated			
	2018			
	Up to 3 Months	>3 to 12 Months	>12 Months	Total
Financial Assets				
Due from BSP	₱101,890	₱—	₱—	₱101,890
Due from other banks	9,455	—	—	9,455
Investment securities	12,301	3,432	174,500	190,232
Loans and receivables	255,491	38,683	211,634	505,808
Total financial assets	379,137	42,114	386,133	807,385
Financial Liabilities				
Deposit liabilities	291,698	17,893	412,532	722,123
Bills payable	34,505	4,507	815	39,827
Total financial liabilities	326,204	22,400	413,346	761,950
Repricing gap	₱52,934	₱19,714	(₱27,213)	₱45,435

	Consolidated			
	2017			
	Up to 3 Months	>3 to 12 Months	>12 Months	Total
Financial Assets				
Due from BSP	₱98,490	₱—	₱—	₱98,490
Due from other banks	15,641	—	—	15,641
Investment securities	9,702	471	117,797	127,970
Loans and receivables	243,419	32,312	173,240	448,971
Total financial assets	367,252	32,783	291,037	691,072
Financial Liabilities				
Deposit liabilities	256,633	14,206	364,254	635,093
Bills payable	20,118	—	—	20,118
Total financial liabilities	276,751	14,206	364,254	655,211
Repricing gap	₱90,501	₱18,577	(₱73,217)	₱35,861

	Parent Company			
	2018			
	Up to 3 Months	>3 to 12 Months	>12 Months	Total
Financial Assets				
Due from BSP	₱95,093	₱—	₱—	₱95,093
Due from other banks	7,838	—	—	7,838
Investment securities	5,782	3,355	169,588	178,725
Loans and receivables	232,067	26,695	182,672	441,435
Total financial assets	340,780	30,050	352,260	723,090
Financial Liabilities				
Deposit liabilities	241,100	14,877	382,266	638,243
Bills payable	34,505	4,507	815	39,827
Total financial liabilities	275,606	19,384	383,080	678,070
Repricing gap	₱65,174	₱10,666	(₱30,820)	₱45,020



	Parent Company			
	2017			
	Up to 3 Months	>3 to 12 Months	>12 Months	Total
Financial Assets				
Due from BSP	₱91,717	₱—	₱—	₱91,717
Due from other banks	14,067	—	—	14,067
Investment securities	7,364	466	112,697	120,527
Loans and receivables	218,899	23,005	144,651	386,555
Total financial assets	332,047	23,471	257,348	612,866
Financial Liabilities				
Deposit liabilities	215,735	12,112	331,389	559,236
Bills payable	20,118	—	—	20,118
Total financial liabilities	235,853	12,112	331,389	579,354
Repricing gap	₱96,194	₱11,359	(₱74,042)	₱33,512

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 to parallel changes in the interest rate curve in a given 12-month period.

The following tables set forth the estimated change in the Group's and Parent Company's annualized net interest income due to a parallel change in the interest rate curve as of December 31, 2018 and 2017:

	Consolidated			
	2018			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	₱645	₱322	(₱322)	(₱645)
As a percentage of the Group's net interest income for the year ended December 31, 2018	2.80%	1.40%	(1.40%)	(2.80%)
	Consolidated			
	2017			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	₱1,046	₱523	(₱523)	(₱1,046)
As a percentage of the Group's net interest income for the year ended December 31, 2017	5.33%	2.66%	(2.66%)	(5.33%)



	Parent Company			
	2018			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	₱996	₱498	(₱498)	(₱996)
As a percentage of the Parent Company's net interest income for the year ended December 31, 2018	4.95%	2.48%	(2.48%)	(4.95%)
	Parent Company			
	2017			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	₱1,049	₱525	(₱525)	(₱1,049)
As a percentage of the Parent Company's net interest income for the year ended December 31, 2017	6.46%	3.23%	(3.23%)	(6.46%)

The following tables set forth the estimated change in the Group's and Parent Company's income before tax and equity due to a reasonably possible change in the market prices of quoted bonds classified under financial assets at FVPL, AFS financial assets and financial assets at FVOCI, brought about by movement in the interest rate curve as of December 31, 2018 and 2017 (in millions):

	Consolidated			
	2018			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in income before tax	(₱51)	(₱20)	₱20	₱51
Change in equity	(113)	(45)	45	113
	Consolidated			
	2017			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in income before tax	(₱146)	(₱58)	₱58	₱146
Change in equity	(637)	(255)	255	637
	Parent Company			
	2018			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in income before tax	(₱51)	(₱20)	₱20	₱51
Change in equity	(103)	(41)	41	103
	Parent Company			
	2017			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in income before tax	(₱145)	(₱58)	₱58	₱145
Change in equity	(600)	(240)	240	600



Foreign Currency Risk

The Group's foreign exchange risk originates from its holdings of foreign currency-denominated assets (foreign exchange assets) and foreign currency-denominated liabilities (foreign exchange liabilities).

Foreign exchange liabilities generally consist of foreign currency-denominated deposits in the Group's FCDU account made in the Philippines or generated from remittances to the Philippines by persons overseas who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Group.

Foreign currency liabilities are generally used to fund the Group's foreign exchange assets which generally consist of foreign currency-denominated loans and investments in the FCDU. Banks are required by the BSP to match the foreign currency-denominated assets with liabilities held in the FCDU that are denominated in the same foreign currency. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency-denominated liabilities held in the FCDU.

The Group's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Group believes in ensuring its foreign currency is at all times within limits prescribed for financial institutions who are engaged in the same types of businesses in which the Group and its subsidiaries are engaged.

The table below summarizes the Group's and Parent Company's exposure to foreign exchange risk. Included in the table are the Group's and Parent Company's assets and liabilities at carrying amounts (stated in US Dollars), categorized by currency with its PHP equivalent:

	Consolidated							
	2018				2017			
	USD	Other Currencies*	Total	PHP	USD	Other Currencies*	Total	PHP
Assets								
Cash and other cash items	\$2,204	2,095	4,299	₱226,044	\$2,447	3,173	5,620	₱280,624
Due from other banks	42,189	7,705	49,894	2,623,437	64,664	16,189	80,853	4,037,014
Financial assets at FVPL	15,988	—	15,988	840,625	60,427	—	60,427	3,017,118
Financial assets at FVOCI	14,640	—	14,640	769,771	—	—	—	—
AFS financial assets	—	—	—	—	71,057	6,324	77,381	3,863,641
Investment securities at amortized cost	116,716	—	116,716	6,136,946	—	—	—	—
HTM financial assets	—	—	—	—	31,952	9,791	41,742	2,084,196
Loans and receivables	42,471	12,985	55,455	2,915,835	30,809	7,385	38,194	1,907,050
Accrued interest receivable	1,038	19	1,057	55,562	992	133	1,125	56,164
Other assets	17,253	302	17,555	923,023	24,851	2	24,853	1,240,929
	252,498	23,106	275,604	14,491,243	287,199	42,998	330,197	16,486,736
Liabilities								
Deposit liabilities	66,162	109,191	175,353	9,220,065	59,445	36,388	95,833	4,784,917
Bills payables	354,416	57,130	411,546	21,639,069	128,720	132,510	261,230	13,043,213
Accrued interest and other expenses	1,554	7	1,561	82,090	512	7	519	25,900
Other liabilities	8,710	1,750	10,459	549,944	11,317	877	12,194	608,805
	430,842	168,077	598,919	31,491,168	199,994	169,782	369,776	18,462,835
Currency spot	(6,789)	(316)	(7,106)	(373,621)	(8,054)	—	(8,054.00)	(402,136)
Currency forwards	185,313	145,250	330,563	17,380,980	(59,709)	136,301	76,591.11	3,824,198
Net Exposure	\$ 179	(38)	141	₱7,434	\$19,442	9,516	28,958	₱1,445,964

*Other currencies include EUR, CNY, JPY, GBP, AUD, SGD, CHF, CAD, NZD, AED, HKD.



	Parent Company							
	2018				2017			
	USD	Other Currencies*	Total	PHP	USD	Other Currencies*	Total	PHP
Assets								
Cash and other cash items	\$123	2,095	2,218	₱116,611	\$250	3,173	3,424	₱170,939
Due from other banks	38,240	7,705	45,944	2,415,755	56,536	16,189	72,726	3,631,190
Financial assets at FVPL	15,988	—	15,988	840,625	59,729	—	59,729	2,982,292
Financial assets at FVOCI	—	—	—	—	—	—	—	—
AFS financial assets	—	—	—	—	—	—	—	—
Investment securities at amortized cost	—	—	—	—	49,997	6,324	56,321	2,812,106
	69,961	—	69,961	3,678,571	—	—	—	—
HTM financial assets	—	—	—	—	—	9,791	9,791	488,850
Loans and receivables	35,151	12,985	48,136	2,530,985	23,323	7,385	30,709	1,533,277
Accrued interest receivable	75	19	94	4,967	96	133	229	11,418
Other assets	17,060	302	17,362	912,911	24,790	2	24,792	1,237,880
	\$176,598	23,106	199,704	₱10,500,426	\$214,722	42,998	257,720	₱12,867,952
Liabilities								
Deposit liabilities	402	109,191	109,593	5,762,373	501	36,388	36,888	1,841,843
Bills payables	354,416	57,130	411,546	21,639,069	128,720	132,510	261,230	13,043,213
Accrued interest and other expenses	1,433	7	1,440	75,729	418	7	425	21,234
Other liabilities	8,611	1,750	10,361	544,767	9,050	877	9,927	495,639
	364,862	168,077	532,939	28,021,937	138,689	169,781	308,470	15,401,928
Currency spot	(6,789)	(316)	(7,106)	(373,621)	(8,054)	—	(8,054)	(402,136)
Currency forwards	185,313	145,250	330,563	17,380,980	(59,709)	136,301	76,591	3,824,198
Net Exposure	(\$9,741)	(38)	(9,778)	(₱514,153)	\$8,269	9,517	17,787	₱888,086

*Other currencies include EUR, CNY, JPY, GBP, AUD, SGD, CHF, CAD, NZD, AED, HKD.

The following table sets forth, for the period indicated, the impact of the range of reasonably possible changes in the US\$ exchange rate and other currencies per Philippine peso on the pre-tax income and equity (in millions).

	Consolidated		
	Change in Foreign Exchange Rate	Sensitivity of Pretax Income	Sensitivity of Equity
2018			
USD	2%	₱33	₱110
Other	1%	—	—
USD	(2%)	(33)	(110)
Other	(1%)	—	—
2017			
USD	2%	₱134	₱595
Other	1%	3	3
USD	(2%)	(134)	(595)
Other	(1%)	(3)	(3)



	Parent Company		
	Change in Foreign Exchange Rate	Sensitivity of Pretax Income	Sensitivity of Equity
2018			
USD	2%	₱33	₱95
Other	1%	-	-
USD	(2%)	(33)	(95)
Other	(1%)	-	-
2017			
USD	2%	₱133	₱573
Other	1%	3	3
USD	(2%)	(133)	(573)
Other	(1%)	(3)	(3)

The impact in pre-tax income and equity is due to the effect of foreign currency behaviour to Philippine peso.

Equity Price Risk

Equity price risk is the risk that the fair values of equities change as a result of movements in both the level of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on the Group and Parent Company's equity as a result of a change in the fair value of equity instruments held as FVOCI due to a reasonably possible change in equity indices, with all other variables held constant, is as follows (in millions):

	Consolidated	
	Change in equity index	Effect on Equity
2018	+10%	₱6.8
	-10%	1.2
2017	+10%	₱10.5
	-10%	4.1
	Parent Company	
	Change in equity index	Effect on Equity
2018	+10%	₱7.7
	-10%	0.2
2017	+10%	₱10.5
	-10%	4.1

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Parent Company's inability to meet its obligations when they become due without incurring unacceptable losses or costs.



The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed of deposits reserves and high quality securities, the securing of money market lines, and the maintenance of repurchase facilities to address any unexpected liquidity situations.

The tables below show the maturity profile of the Parent Company's assets and liabilities, based on contractual undiscounted cash flows (in millions):

December 31, 2018						
	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Total
Financial Assets						
Cash and other cash items	₱13,705	₱—	₱—	₱—	₱—	₱13,705
Due from BSP	95,093	—	—	—	—	95,093
Due from other banks	7,838	—	—	—	—	7,838
SPURA	—	8,998	—	—	—	9
Financial assets at FVPL	—	1,700	378	1,079	4,296	7,453
Financial assets at FVOCI	—	1,382	389	3,258	4,502	9,531
Loans and receivables	—	166,040	30,097	45,970	337,036	579,143
	₱116,636	₱178,120	₱30,865	₱50,306	₱345,834	₱712,772
Financial Liabilities						
Deposit liabilities						
Demand	145,560	—	—	—	—	145,560
Savings	226,944	—	—	—	—	226,944
Time	—	235,885	4,764	16,552	16,102	273,303
Bills payable	—	40,108	—	—	—	40,108
(Forward)						
Manager's checks	—	2,070	—	—	—	2,070
Accrued interest and other expenses	—	3,279	—	—	—	3,279
Derivative liabilities	—	455	—	—	—	455
Other liabilities:						
Accounts payable	—	2,249	—	—	—	2,249
Acceptances payable	—	358	—	—	—	358
Due to PDIC	—	628	—	—	—	628
Margin deposits	—	3	—	—	—	3
Other credits – dormant	—	242	—	—	—	242
Due to the Treasurer of the Philippines	—	379	—	—	—	379
Miscellaneous	—	1,922	—	—	—	1,922
Total liabilities	372,504	287,578	4,764	16,552	16,102	697,499
Net Position	(₱255,867)	(₱113,646)	₱26,101	₱49,691	₱345,834	₱52,112



	December 31, 2017					Total
	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 5 years	
Financial Assets						
Cash and other cash items	P11,160	P—	P—	P—	P—	P11,160
Due from BSP	91,717	—	—	—	—	91,717
Due from other banks	14,067	—	—	—	—	14,067
SPURA	—	17,348	—	—	—	217,348
Financial assets at FVPL	—	2,673	844	760	14,001	18,278
AFS financial assets	—	8,360	4,802	4,786	35,082	53,031
Loans and receivables	—	149,393	23,651	25,443	268,251	466,738
	106,944	177,774	29,297	30,989	317,334	653,804
Financial Liabilities						
Deposit liabilities						
Demand	138,930	—	—	—	—	139,180
Savings	179,593	—	—	—	—	179,593
Time	—	235,825	799	5,012	348	241,984
Bills payable	—	20,177	—	—	—	20,177
Manager's checks	—	1,709	—	—	—	1,709
Accrued interest and other expenses	—	1,062	—	—	—	1,062
Derivative liabilities	—	268	—	—	—	268
Other liabilities:						
Accounts payable	—	1,828	—	—	—	1,828
Acceptances payable	—	470	—	—	—	470
Due to PDIC	—	532	—	—	—	532
Margin deposits	—	3	—	—	—	3
Other credits – dormant	—	214	—	—	—	214
Due to the Treasurer of the Philippines	—	34	—	—	—	34
Miscellaneous	—	510	—	—	—	510
Total liabilities	318,523	262,632	799	5,012	348	587,314
Net Position	(P211,580)	(P84,858)	P28,498	P25,977	P317,398	P85,186

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the MCO report, as well as an analysis of available liquid assets. Instead of relying solely on contractual maturities profile, the Parent Company uses Behavioral MCO to capture a going concern view. Furthermore, internal liquidity ratios and monitoring of large fund providers have been set to determine sufficiency of liquid assets over deposit liabilities. The Bank started monitoring and reporting to the BSP the Liquidity Coverage Ratio in 2016 and the Net Stable Funding Ratio in 2018. Liquidity is managed by the Parent and its subsidiaries on a daily basis, while scenario stress tests and sensitivity analysis are conducted periodically.

7. Due From BSP and Other Banks

Due from BSP

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Demand deposit account	P99,889,758	P95,790,000	P93,092,929	P89,017,023
Special deposit account	2,000,000	2,700,000	2,000,000	2,700,000
Others	15	14	15	14
	P101,889,773	P98,490,014	P95,092,944	P91,717,037



Due from Other Banks

This comprises of deposit accounts with:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Local banks	₱5,284,825	₱6,600,456	₱4,140,002	₱6,479,014
Foreign banks	4,170,622	9,041,020	3,697,892	7,587,605
	₱9,455,447	₱15,641,476	₱7,837,894	₱14,066,620

Interest Income on Due from BSP and Other Banks

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Due from BSP	₱ 124,557	₱213,879	₱266,204	₱67,039	₱112,851	₱246,888
Due from other banks	135,818	138,850	221,843	101,994	50,296	115,528
	₱260,375	₱352,729	₱488,047	₱169,033	₱163,147	₱362,416

8. Interbank Loans Receivable and Securities Purchased Under Resale Agreement

	Consolidated		Parent Company	
	2018	2017	2018	2017
Interbank loans receivable	₱1,998,040	₱—	₱1,998,040	₱—
SPURA	10,000,000	18,751,845	7,000,000	17,347,522
	₱11,998,040	₱18,751,845	₱8,998,040	₱17,347,522

Interbank Loans Receivable

As of December 31, 2018, interbank loans receivable consists of short-term foreign currency-denominated loans granted to other banks with annual interest rates of 2.2%.

Securities Purchased Under Resale Agreement

This account represents overnight placements with the BSP where the underlying securities cannot be sold or repledged to parties other than the BSP.

In 2018, 2017 and 2016, the interest rates of SPURA equals to 4.75%, 3.50%, and 2.90 %, respectively, for the Group and Parent Company.



9. Trading and Investment Securities

Financial Assets at FVPL

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Held for trading				
Government bonds (Note 28)	₱633,893	₱5,911,659	₱633,893	₱5,876,832
Treasury notes	838,662	1,893,192	838,662	1,792,621
Treasury bills	1,214,170	2,025,367	1,214,170	2,025,367
Private bonds	3,189,063	2,663,397	2,282,598	2,616,730
Quoted equity shares	1,312,625	—	1,312,625	—
	7,188,413	12,493,615	6,281,948	12,311,550
Financial assets designated at FVPL	—	3,411,686	—	3,411,686
Derivative assets (Note 25)	407,848	333,587	407,848	333,587
Total	₱7,596,261	₱16,238,888	₱6,689,796	₱16,056,823

As of December 31, 2017, financial assets designated at FVPL of the Parent Company consist of investments in shares of stocks which contain multiple embedded derivatives which are deemed not clearly and closely related to its equity host. In this regard, PAS 39 provides that if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid contract at FVPL unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract, or it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivative is prohibited. On this basis, management has determined that the investments shall be designated as at FVPL.

Dividends earned by the Parent Company from its investment in shares designated at FVPL amounted to ₱118.64 million, and ₱82.83 million in 2018 and 2017, respectively (Note 21).

As of December 31, 2018 and 2017, HFT securities include fair value loss of ₱55.35 million and ₱65.56 million, respectively, for the Group, and fair value loss of ₱55.35 million and ₱69.22 million, respectively, for the Parent Company.

Effective interest rates for peso-denominated financial assets at FVPL for both the Group and the Parent Company range from 0.06% to 7.11% in 2018 and from 0.64% to 5.49% in 2017. Effective interest rates for foreign currency-denominated financial assets at FVPL for the Group range from 0.71% to 6.28% in 2018 and from 2.29% to 10.16% in 2017. Effective interest rates for foreign currency-denominated financial assets at FVPL for the Parent Company range from 0.71% to 6.28% in 2018 and from 2.29% to 10.16% in 2017.

Financial Assets at FVOCI

As of December 31, 2018, this account consists of:

	Consolidated	Parent Company
Quoted		
Government bonds (Notes 18 and 28)	₱9,944,507	₱8,141,359
Private bonds	35,370	1,676
Equities	103,285	51,610
	10,083,162	8,194,645
Unquoted		
Equities – net	18,365	18,365
	18,365	18,365
Total	₱10,101,527	₱8,213,010



Unquoted equity securities

This account comprises of shares of stocks of various unlisted private corporations. The Group has designated these equity securities as at FVOCI because they will not be sold in the foreseeable future.

Net unrealized gains (losses)

Financial assets at FVOCI include fair value losses of ₱367.05 million and ₱236.65 million for the Group and Parent Company as of December 31, 2018. The fair value gains or losses are recognized under OCI. Impairment loss on debt financial assets at FVOCI of the Group and the Parent Company amounted to ₱6.32 million in 2018.

Effective interest rates for peso-denominated financial assets at FVOCI for the Group range from 4.25% to 5.58% in 2018 and from 2.95% to 8.92% in 2017. Effective interest rates for peso-denominated financial assets at FVOCI for the Parent Company range from 4.25% to 5.58% in 2018 and from 2.95% to 8.92% in 2017.

Effective interest rates for foreign currency-denominated financial assets at FVOCI for both the Group and Parent Company range from 2.33% to 8.48% in 2018 and from 0.99% to 5.75% in 2017.

AFS Financial Assets

As of December 31, 2017, this account consists of:

	Consolidated	Parent Company
Quoted		
Government bonds (Notes 18 and 28)	₱35,229,504	₱32,373,344
Private bonds	11,090,438	10,483,794
Equities	67,903	67,903
	₱46,387,845	₱42,925,041
Unquoted		
Equities – net *	57,546	12,042
	57,546	12,042
Total	₱46,445,391	₱42,937,083

* Includes fully impaired equity investments with acquisition cost of ₱38.83 million for the Group and ₱6.32 million for the Parent Company as of December 31, 2017 (Note 16).

Unquoted equity securities

This account comprises of shares of stocks of various unlisted private corporations.

Net unrealized gains (losses)

AFS financial assets include fair value losses of ₱1.81 billion for the Group and Parent Company as of December 31, 2017. The fair value gains or losses are recognized under OCI. No impairment loss was recognized in 2017.

In 2017, effective interest rates for peso-denominated AFS financial assets for the Group range from 1.34% to 7.00% in 2017 and effective interest rates for peso-denominated AFS financial assets for the Parent Company range from 2.08% to 7.00%.

Effective interest rates for foreign currency-denominated AFS financial assets for both the Group and Parent Company range from 0.99% to 5.75% in 2018 and from 0.37% to 7.45% in 2017.



Investment Securities at Amortized Cost

As of December 31, 2018, this account consists of:

	Consolidated	Parent Company
Government bonds (Note 18)	107,986,234	101,388,184
Private bonds	55,122,532	53,291,150
	163,108,766	154,679,334
Unamortized premium – net	9,803,371	9,360,070
Allowance	(375,101)	(214,938)
	172,537,036	163,824,466

Effective interest rates for peso-denominated investment securities at amortized cost for the Group range from 1.06% to 8.92% in 2018, 2.82% to 7.75% in 2017, and from 2.05% to 6.63% in 2016. Effective interest rates for foreign currency-denominated investment securities at amortized cost range from 0.58% to 7.37% in 2018, 8.50% to 8.93% in 2017, and from 0.21% to 8.50% in 2016.

Effective interest rates for peso-denominated investment securities at amortized cost of the Parent Company range from 1.06% to 8.92% in 2018, 2.82% to 5.25% in 2017 and from 4.13% to 9.13% in 2016. Effective interest rates for foreign currency-denominated investment securities at amortized cost range from 0.21% to 8.50% in 2018, 0.21% to 8.93% in 2017, and from 2.26% to 10.72% in 2016.

HTM Financial Assets

As of December 31, 2017, this account consists of:

	Consolidated	Parent Company
Government bonds (Note 18)	₱46,718,014	₱44,032,555
Private bonds	11,465,164	10,697,164
	58,183,178	54,729,719
Unamortized premium – net	7,103,089	6,803,774
	₱65,286,267	₱61,533,493

Effective interest rates for peso-denominated HTM financial assets for the Group range 2.05% to 6.63% in 2017, and from 1.35% to 9.13% in 2016. Effective interest rates for foreign currency-denominated HTM financial assets range from 0.21% to 8.93% in 2017, and from 2.26% to 10.72% in 2016.

Effective interest rates for peso-denominated HTM financial assets of the Parent Company range from 2.82% to 5.25% in 2017 and from 4.13% to 9.13% in 2016. Effective interest rates for foreign currency-denominated HTM financial assets range from 0.21% to 8.93% in 2017, and from 2.26% to 10.72% in 2016.

Reclassification of Financial Assets

2016 Reclassification

As allowed under PAS 39, the Group transferred certain securities from AFS financial assets to HTM financial assets on various dates in November 2017 (reclassification dates). The decision to effect this transfer was reached by balancing the need to reduce the market risk sensitivity of the balance sheet without reducing the portfolio of liquid assets.



As of December 31, 2017, details of reclassified financial assets follow:

Consolidated						
	Face Value	Carrying Value at Reclassification Date	Carrying Value as of December 31	Fair Value at Reclassification Date	Unamortized Net Unrealized Loss Deferred in Equity	Amortization
(in original currency)						
Philippine peso denominated government bonds	₱10,106,378	₱11,636,529	₱10,977,243	₱11,039,842	(₱544,126)	₱52,561
US dollar denominated government bonds	USD103,371	135,851	126,762	129,074	(6,372)	405
Parent						
	Face Value	Carrying Value at Reclassification Date	Carrying Value as of December 31	Fair Value at Reclassification Date	Unamortized Net Unrealized Loss Deferred in Equity	Amortization
(in original currency)						
Philippine peso denominated government bonds	₱9,856,378	₱11,350,542	₱10,704,207	₱10,765,719	(₱533,349)	₱51,474
US dollar denominated government bonds	USD96,871	126,204	118,144	120,350	(5,556)	298

As of December 31, 2017, had these securities not been transferred to HTM, additional fair value gain of ₱14.92 million and ₱7.86 million on Philippine peso denominated government bonds, for the Group and the Parent Company, respectively and additional fair values gain of USD2.85 million (₱142.30 million) and USD2.67 million (₱133.31 million) on US dollar denominated government bonds, for the Group and Parent Company, respectively, would have been charged against to the statement of comprehensive income.

The effective interest rates on Philippine peso denominated government bond at reclassification dates range from 3.05% to 5.25% for both the Group and Parent Company. The effective interest rates for US dollar denominated bonds range from 2.26% to 4.08% at the time of their reclassification for both the Group and Parent Company. The Group and Parent Company expect to recover 100% of the principal and the interest due on these transferred assets. These securities are also unimpaired as of December 31, 2017.

The unrealized losses deferred under 'Net unrealized gains (losses) on AFS Financial Assets' at reclassification date amounted to ₱584.82 million and USD5.85 million for Philippine peso denominated and US dollar denominated government bonds, respectively.

2008 Reclassification

In 2008, as approved by its BOD, the Parent Company identified assets for which it had a clear change of intent to hold the investments to maturity rather than to exit or trade these investments in the foreseeable future and reclassified those investments from AFS financial assets to HTM financial assets effective October 2, 2008.

As of October 2, 2008, the total carrying value of AFS financial assets reclassified to HTM financial assets amounted to ₱9.04 billion, with unrealized losses of ₱47.44 million deferred under 'Net unrealized gains (losses) on AFS financial assets'. HTM financial assets reclassified from AFS financial assets with total face amount ₱798.13 million matured in 2017.



As of December 31, 2017, HTM financial assets reclassified from AFS financial assets consist of government bonds which have the following balances:

	Face Value*	Original Cost	Carrying Value as of December 31	Fair Value at reclassification date	Unamortized Net Unrealized Loss Deferred in Equity	Amortization
2017	491,811	592,315	509,646	531,918	(4,427)	24,016

*Consist of US dollar-denominated bonds with face value of \$9.85 million and \$25.84 million as of December 31, 2018 and 2017, respectively.

Had these securities not been reclassified to HTM financial assets, additional fair value gain that would have been credited to the statement of comprehensive income amounted to ₱22.27 million, and ₱395.74 million in 2017 and 2016, respectively. Effective interest rate on the reclassified securities is 6.21%. The Parent Company expects to recover 100.00% of the principal and interest due on the reclassified investments. No impairment loss was recognized on these securities in 2017 and 2016.

Interest Income on Investment Securities

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Financial assets at FVOCI	₱596,864	₱—	₱—	₱525,774	₱—	₱—
AFS financial assets	—	1,309,755	1,538,173	—	1,176,831	1,439,037
Investment securities at amortized cost	5,279,064	—	—	5,034,083	—	—
HTM financial assets	—	2,246,355	1,539,908	—	2,098,194	1,441,882
	₱6,289,251	₱3,966,999	₱3,282,963	₱5,973,180	₱3,673,802	₱3,060,325

10. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Loans and discounts				
Corporate and commercial lending	₱411,800,451	₱369,145,536	₱381,404,349	₱337,153,332
Consumer lending	87,214,939	73,858,213	52,684,530	44,035,292
Trade-related lending	13,817,866	12,249,287	12,937,606	10,688,002
Others*	56,516	364,975	39,761	54,551
	512,889,771	455,618,011	447,066,246	391,931,177
Unearned discounts	(255,536)	(307,886)	(208,377)	(267,099)
	512,634,235	455,310,125	446,857,869	391,664,078
Allowance for impairment and credit losses (Note 16)	(6,829,280)	(6,339,183)	(5,425,713)	(5,109,580)
	₱505,804,955	₱448,970,942	₱441,432,156	₱386,554,498

*Others include employee loans and foreign bills purchased.

The Group's and Parent Company's loans and discounts under corporate and commercial lending include unquoted debt securities with carrying amount of ₱1.10 billion and ₱1.00 billion as of December 31, 2017, respectively.

As of December 31, 2018, loans of the Parent Company amounting to ₱5.17 billion are rediscounted with the BSP (Note 18).



BSP Reporting

Information on the amounts of secured and unsecured loans and receivables (gross of unearned discounts and allowance for impairment and credit losses) of the Group and Parent Company are as follows:

	Consolidated				Parent Company			
	2018		2017		2018		2017	
	Amounts	%	Amounts	%	Amounts	%	Amounts	%
Loans secured by								
Real estate	P92,960,218	18.12	P71,900,048	15.78	P 66,332,530	14.84	P44,232,910	11.29
Chattel mortgage	25,512,590	4.97	30,900,443	6.78	12,063,924	2.70	18,831,553	4.80
Deposit hold out	3,839,704	0.75	3,980,670	0.87	3,027,964	0.68	2,893,239	0.74
Shares of stock of other banks	2,347,650	0.46	5,060,000	1.11	2,347,650	0.53	5,060,000	1.29
Guarantee by the Republic of the Philippines	5,746,500	1.12	7,082,500	1.55	5,746,500	1.29	7,082,500	1.81
Others	105,253,810	20.52	80,947,148	17.77	102,901,498	23.02	78,703,585	20.08
	235,660,467	45.95	199,870,809	43.87	192,420,066	43.04	156,803,787	40.01
Unsecured loans	277,229,304	54.05	255,747,202	56.13	254,646,180	56.96	235,127,390	59.99
	P512,889,771	100.00	P455,618,011	100.00	P447,066,246	100.00	P391,931,177	100.00

Information on the concentration of credit as to industry of the Group and Parent Company follows:

	Consolidated			
	2018		2017	
	Amounts	%	Amounts	%
Real estate, renting and business services	P114,735,281	22.37	P113,424,302	24.89
Electricity, gas and water	72,863,548	14.21	53,514,587	11.75
Wholesale and retail trade	55,339,970	10.79	53,818,092	11.81
Transportation, storage and communication	50,516,030	9.85	40,464,073	8.88
Financial intermediaries	49,687,486	9.69	52,341,750	11.49
Manufacturing	28,277,954	5.51	29,583,222	6.49
Arts, entertainment and recreation	25,456,962	4.96	13,959,186	3.06
Accommodation and food service activities	12,218,029	2.38	12,260,862	2.69
Construction	11,287,124	2.20	8,732,720	1.92
Mining and quarrying	9,839,723	1.92	887,231	0.19
Agriculture	7,134,717	1.39	6,051,546	1.33
Education	5,717,621	1.11	3,869,247	0.85
Public administration and defense	5,166,000	1.01	6,232,000	1.37
Professional, scientific and technical activities	4,319,666	0.84	4,079,383	0.90
Others*	60,329,660	11.26	56,399,810	12.38
	P512,889,771	100.00	P455,618,011	100.00

*Others consist of administrative and support service, health, household and other activities.



	Parent Company			
	2018		2017	
	Amounts	%	Amounts	%
Real estate, renting and business services	₱90,654,316	20.28	₱91,809,744	23.42
Electricity, gas and water	70,798,136	11.04	52,050,493	13.28
Financial intermediaries	48,096,511	10.76	49,950,420	12.74
Wholesale and retail trade	49,365,453	11.04	46,238,179	11.80
Transportation, storage and communication	47,756,466	10.68	38,376,551	9.79
Manufacturing	25,115,956	5.62	25,622,331	6.54
Arts, entertainment and recreation	25,318,150	5.66	13,895,619	3.55
Accommodation and food service activities	10,563,067	2.36	10,285,048	2.62
Construction	9,965,323	2.23	7,349,908	1.88
Mining and quarrying	9,835,453	2.20	884,6864	0.23
Agriculture	5,321,124	1.19	4,442,522	1.13
Public administration and defense	5,166,000	1.16	6,232,000	1.59
Education	4,872,451	1.09	2,845,294	0.73
Professional, scientific and technical activities	4,221,842	0.94	3,760,091	0.96
Others*	40,015,998	8.95	38,188,292	9.74
	₱447,066,246	100.00	₱391,931,177	100.00

*Others consist of administrative and support service, health, household and other activities.

The BSP considers that loan concentration exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. As of December 31, 2018 and 2017, the Parent Company does not have credit concentration in any particular industry.

As of December 31, 2018 and 2017, secured and unsecured non-performing loans (NPLs) of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Secured	₱2,771,745	₱3,164,209	₱493,929	₱687,318
Unsecured	3,173,971	3,237,418	2,140,143	2,235,931
	₱5,945,716	₱6,401,627	₱2,634,072	₱2,923,249

Prior to January 1, 2018, NPLs generally refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches twenty percent (20.00%) of the total loan balance.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs.



With the issuance of BSP Circular 941 *Amendments to the Regulations on Past Due and Non-Performing Loans* effective January 1, 2018, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Interest Income on Loans and Receivables

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Receivables from customers	₱28,195,915	₱21,663,571	₱17,812,793	₱23,488,872	₱17,455,018	₱14,055,123
Unquoted debt securities	–	88,076	76,459	–	81,999	67,164
	₱28,195,915	₱21,751,647	₱17,889,252	₱23,488,872	₱17,537,017	₱14,122,287

As of December 31, 2018 and 2017, 67.40% and 65.01%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2018 and 2017, 71.76% and 67.67%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.65% to 10.50% in 2018, from 2.08% to 10.50% in 2017, and from 1.00% to 11.00% in 2016 for foreign currency-denominated receivables and from 0.95% to 30.00% in 2018 and from 0.95% to 30.00% in 2017, and from 1.00% to 30.00% in 2016 for peso-denominated receivables.

11. Equity Investments

This account consists of investments in:

A. Subsidiaries

	2018	2017
Equity Method:		
Balance at beginning of the year		
CBSI	₱11,618,713	₱11,047,530
CBCC	1,512,899	732,541
CBC-PCCI	27,905	22,853
CIBI	401,215	366,113
	13,560,733	12,169,037
Share in net income		
CBSI	328,663	514,396
CBCC	358,796	276,161
CBC-PCCI	14,834	5,851
CIBI	(6,938)	39,596
	695,356	836,004
Share in Other Comprehensive Income		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain (loss) on FVOCI		
CBSI	(25,338)	24,765
CBCC	(27,584)	1,926
CIBI	(16,978)	(4,196)
	(69,900)	22,495

(Forward)



	2018	2017
Cumulative translation adjustments		
CBSI	₱5,791	₱13,058
	5,791	13,058
<i>Items that do not recycle to profit or loss in subsequent periods:</i>		
Remeasurement gain on defined benefit assets		
CBSI	86,299	18,964
CBCC	2,344	2,272
CBC-PCCI	—	(798)
CIBI	—	(298)
	88,642	20,140
Effect of PFRS 9 on Surplus:		
CBSI	(397,055)	—
	(397,055)	—
Additional Investments		
CBSI	500,000	—
CBCC	—	500,000
	500,000	500,000
Cash Dividends		
CIBI	(50,000)	—
		—
Balance at end of the year		
CBSI	12,117,074	11,618,713
CBCC	1,846,455	1,512,899
CBC-PCCI	42,739	27,905
CIBI	327,299	401,215
	₱14,333,567	₱13,560,733

B. Associates:

	2018	2017
Equity Method:		
Balance at beginning of the year	₱329,422	₱276,559
Share in net income	101,009	73,133
Share in OCI:		
<i>Items that do not recycle to profit or loss in subsequent periods</i>		
Remeasurement loss on life insurance reserves	31,374	(12,221)
<i>Items that recycle to profit or loss in subsequent periods:</i>		
Net unrealized loss on FVOCI	(126,713)	(8,050)
Balance at end of the year	₱335,092	₱329,422

CBSI

Cost of investment includes the original amount incurred by the Parent Company from its acquisition of CBSI in 2007 amounting to ₱1.07 billion. The capital infusion to CBSI in 2018 amounting to ₱500 million was approved by the Parent Company's BOD on June 6, 2018

Merger of CBSI with PDB

The BOD of both CBSI and PDB, in their meeting held on June 26, 2014, approved the proposed merger of PDB with CBSI, with the latter as the surviving bank. The terms of the Plan of Merger of CBSI with PDB were approved by CBSI and PDB's stockholders owning at least 2/3 of each corporation's outstanding common stocks in separate meetings held on August 14, 2014. The Plan of Merger permits the issuance of 1.23 PDB common shares for every CBSI common share.

On November 6, 2015, the BSP issued the Certificate of Authority on the Articles of Merger and the Plan of Merger, as amended, of CBSI and PDB.



On December 17, 2015, CBSI obtained SEC's approval of its merger with PDB, whereby the entire assets and liabilities of PDB shall be transferred to and absorbed by CBSI.

Acquisition of PDB

In 2014, the Parent Company made tender offers to non-controlling stockholders of PDB. As of December 31, 2014, the Parent Company owns 99.85% and 100.00% of PDB's outstanding common and preferred stocks, respectively.

As of December 31, 2014, the Parent Company's cost of investment in PDB consists of:

Acquisition of majority of PDB's capital stock	₱1,421,346
Additional capital infusion	1,300,000
Tender offers	255,354
	<u>₱2,976,700</u>

On March 31, 2015, the Parent Company made additional capital infusion to PDB amounting to ₱1.70 billion. Of the total cost of investment, the consideration transferred for the acquisition of PDB follows:

Acquisition of majority of PDB's capital stock	₱1,421,346
Tender offers	255,354
	<u>₱1,676,700</u>

In 2015, the MB of the BSP granted to the Group investment and merger incentives in the form of waiver of special licensing fees for 67 additional branch licenses in restricted areas. This is in addition to the initial investment and merger incentives of 30 new branches in restricted areas and 35 branches to be transferred from unrestricted to restricted areas granted to the Parent Company by the MB in 2014. These branch licenses were granted under the Strengthening Program for Rural Bank (SPRB) Plus Framework.

The branch licenses have the following fair values:

114 Commercial Bank branch licenses	₱2,280,000
18 Thrift Bank branch licenses	270,000
	<u>2,550,000</u>
Deferred tax liability	765,000
	<u>₱1,785,000</u>

On April 6, 2016, the Parent Company's BOD has approved the allocation of the 67 additional branch licenses in restricted areas as follows: 49 to the Parent Company and 18 to CBSI. Pursuant to a memorandum dated March 18, 2017, the 67 branch licenses were awarded as incentives by the Monetary Board as a result of the Parent Company's acquisition of PDB. Goodwill from acquisition of PDB is computed as follows:

Consideration transferred		₱1,676,700
Less: Fair value of identifiable assets and liabilities		
acquired (Note 15)		
Net liabilities of PDB	(₱725,207)	
Branch licenses, net of deferred tax liability		
(Note 13)	1,785,000	1,059,793
		<u>₱616,907</u>



CIBI

On December 7, 2018, the BOD of CIBI approved the declaration of the cash dividends of ₱50 million from the CIBI's unrestricted retained earnings for Stockholders on record as of December 15, 2018 payable on December 26, 2018.

CBCC

On April 1, 2015, the BOD approved the investment of the Parent Company in an investment house subsidiary, CBCC, up to the amount of ₱500.00 million, subject to the requirements of relevant regulatory agencies. On April 30, 2015, the BSP approved the request of the Parent Company to invest up to 100% or up to ₱500.00 million common shares in CBCC, subject to certain conditions. On November 27, 2015, the SEC approved the Articles of Incorporation and By-Laws of CBCC. It also granted CBCC the license to operate as an investment house. Actual capital infusion to CBCC amounted to ₱200.00 million and ₱300.00 million in 2016 and 2015, respectively.

On January 19, 2017, the BOD of CBCC approved the increase in authorized capital stock of CBCC from ₱500.00 million to ₱2.00 billion to enable CBCC to handle bigger deals. The approval was ratified by the BOD of the Parent Company on February 1, 2017. On April 27, 2017, the Parent Company paid CBCC ₱500.00 million for additional subscription of 50,000,000 shares.

CBCC acquisition of CBCSec (formerly ATC Securities, Inc.)

On May 19, 2016, the BOD of CBCC approved the acquisition of ATC Securities, Inc. (ATC).

On June 29, 2016, CBCC and the shareholders of ATC (the Original Shareholders) entered into an Agreement for the Purchase of Shares (Agreement), whereby CBCC agreed to buy, and the Original Shareholders agreed to sell, 3,800,000 shares representing 100% of the issued and outstanding shares of ATC.

The initial purchase price for the acquisition of ATC was set at ₱21,767,997.50, payable as follows:

- a. 10% – on signing date of the Agreement (June 29, 2016)
- b. 70% of the purchase price – on closing date (March 6, 2017)
- c. 10% of the purchase price – upon receipt of Certificates Authorizing Registration and Tax Clearance Certificates
- d. 10% of the purchase price – one year from the closing date (March 6, 2018), subject to any deduction for certain losses

On February 22, 2017, the Philippine Stock Exchange approved ATC's application for change in controlling interest through CBCC's acquisition of 100% of the issued and outstanding shares of ATC.

In view of the prolonged period since the Agreement was signed and the resulting change in the financial position, prospects, and other circumstances of ATC and its Original Shareholders, the parties agreed to negotiate an adjustment to the purchase price that is mutually acceptable to CBCC and the Original Shareholders.

On March 6, 2017, CBCC and the Original Shareholders agreed to fix the final purchase price of the acquisition at ₱26,704,341, and the Original Shareholders executed deeds of absolute sale of their respective shares in ATC in favor of CBCC. By virtue of this transaction, CBCC assumed ownership and control of ATC.



On March 6, 2017, CBCC and ATC entered into a Subscription Agreement, whereby CBCC subscribed to 7,200,000 common shares of ATC at a price of ₱10.00 per share or a total subscription price of ₱72.00 million.

The fair values of identifiable assets and liabilities arising from the acquisition as of March 6, 2017 are as follows:

Assets	
Cash and cash equivalents	₱9,196,017
Accounts receivable	348,024
Computer software (net)	559,375
Office equipment (net)	149,264
Trading rights	8,500,000
Prepaid expenses	1,755,945
Condominium	12,063,309
Other assets	3,004,295
Total Assets	35,576,228
Liabilities	
Accounts payable	₱406,250
Payable to customer	2,256,733
Payable to clearing house	61,519
Other liabilities	56,820
Total Liabilities	2,781,321
Net Book Value	₱32,794,907

The acquisition by CBCC of ATC Securities, Inc. resulted in recognition of gain on bargain purchase which is determined as follows:

Cost of acquisition	₱26,704,341
Less net assets recognized	32,794,907
Gain on bargain purchase	₱6,090,566

The gain from a bargain purchase identified as the excess of the fair value of the net assets of ATC Securities, Inc. over the cost of acquisition is mainly attributable to the mutually agreed price that accounts for intention of the Original Shareholders to ultimately retire from the business, prevention of further outlay of funds from the Original Shareholders to ensure compliance with regulatory capital requirements and their relative ability to divest of the said shares in an expeditious manner.

Gain on bargain purchase is included under 'Miscellaneous income' in the consolidated statements of income (Note 21).

Cash flow on acquisition follows:

Cash and cash equivalents acquired from ATC Securities, Inc.	₱9,196,017
Cash paid	24,033,906
Net Cash Outflow	₱14,837,889

From the date of acquisition, CBCSec's operating income and net income included in the consolidated statement of income amounted to ₱6.37 million. If the acquisition had taken place at the beginning 2017, the Group's total operating income and net income in 2017 would have increased by ₱5.69 million.



On July 6, 2017, the SEC approved the change of name from ATC Securities, Inc. to China Bank Securities Corporation.

On August 23, 2017, CBCC subscribed to the remaining 4,000,000 unissued common shares of CBCSec at a price of ₱10.00 per share or a total subscription price of ₱40.00 million, to provide CBCSec with sufficient capital buffer as its transition and ramps up its operations as the equities brokerage house of the Group.

CBC Assets One (SPC) Inc.

CBC Assets One (SPC) Inc. was incorporated on June 15, 2016 as a wholly-owned special purpose company of CBCC for asset-backed securitization. It has not yet commenced commercial operations.

Investment in Associates

Investment in associates in the consolidated and Parent Company's financial statements pertain to investment in MCB Life and CBC-PCCI's investment in Urban Shelters (accounted for by CBC-PCCI in its financial statements as an investment in an associate) which is carried at nil amount as of December 31, 2018 and 2017.

The following tables show the summarized financial information of MCB Life:

	2018	2017
Total assets	₱34,832,490	₱31,656,389
Total liabilities	34,007,106	30,834,456
Equity	825,384	821,933
	2018	2017
Revenues	₱9,176,931	₱6,268,405
Benefits, claims and operating expenses	8,898,029	6,066,765
Income (loss) before income tax	278,902	201,640
Net income (loss)	252,522	182,833

MCB Life

On August 2, 2006, the BOD approved the joint project proposal of the Parent Company with Manufacturers Life Insurance Company (Manulife). Under the proposal, the Parent Company will invest in a life insurance company owned by Manulife, and such company will be offering innovative insurance and financial products for health, wealth and education through the Parent Company's branches nationwide. The life insurance company was incorporated as The Pramerica Life Insurance Company Inc. in 1998. The name was changed to Manulife China Bank Life Assurance Corporation on March 23, 2007. The Parent Company acquired 5.00% interest in MCB Life on August 8, 2007. This investment is accounted for as an investment in an associate by virtue of the Bancassurance Alliance Agreement which provides the Parent Company to be represented in MCB Life's BOD and, thus, exercise significant influence over the latter.

The BSP requires the Parent Company to maintain a minimum of 5.00% ownership over MCB Life in order for MCB Life to be allowed to continue distributing its insurance products through the Parent Company's branches.

On September 12, 2014, the BSP approved the request of the Parent Company to raise its capital investment in MCB Life from 5.00% to 40.00% of its authorized capital through purchase of 1.75 million common shares.



On December 5, 2018, the Parent Company's BOD approved the additional capital infusion in the amount of ₱40.00 million in MCB Life. This represents 40% of the ₱100.00 million total capital infusion in MCB Life with the balance of ₱60.00 million to be provided by Manulife Philippines. On top of complying with the higher capital requirements for insurance companies, the additional capital will improve MCB Life's capacity to underwrite more business and enhance its competitive position.

Commission income earned by the Parent Company from its bancassurance agreement amounting to ₱357.79 million, ₱360.01 million, ₱383.48 million in 2018, 2017 and 2016, respectively, is included under 'Miscellaneous income' in the statements of income (Note 20).

12. Bank Premises, Furniture, Fixtures and Equipment

The composition of and movements in this account follow:

	Consolidated					2018 Total
	Land (Note 23)	Furniture, Fixtures and Equipment	Buildings	Leasehold Improvements	Construction- in-Progress	
Cost						
Balance at beginning of year	3,345,404	7,893,528	1,941,742	1,855,565	61,489	15,097,728
Additions		631,734	23,978	315,486	86,804	1,058,002
Disposals/transfers*	(127,141)	(616,184)	(176,307)	18,832	(123,565)	(1,024,365)
Balance at end of year	3,218,263	7,909,078	1,789,413	2,189,883	24,728	15,131,365
Accumulated Depreciation and Amortization						
Balance at beginning of year	—	6,079,049	1,103,650	1,038,017	—	8,220,716
Depreciation and amortization	—	704,124	94,836	211,907	—	1,010,867
Disposals/transfers*	—	(423,065)	(134,512)	6,901	—	(550,676)
Balance at end of year	—	6,360,108	1,063,974	1,256,825	—	8,680,907
Allowance for Impairment Losses (Note 16)						
Balance at beginning of year	—	—	1,148	—	—	1,148
Reclassification	—	—	(1,148)	—	—	(1,148)
Balance at end of year	—	—	—	—	—	—
Net Book Value at End of Year	3,218,263	1,548,970	725,439	933,058	24,728	6,450,458

*Includes transfers from investment properties amounting to ₱20.13 million.

	Consolidated					2017 Total
	Land (Note 23)	Furniture, Fixtures and Equipment	Buildings	Leasehold Improvements	Construction- in-Progress	
Cost						
Balance at beginning of year	₱3,345,404	₱7,163,737	₱1,893,525	₱1,482,415	₱86,405	₱13,971,486
Additions	—	988,658	73,800	679,305	10,410	1,752,173
Disposals/transfers*	—	(258,867)	(25,583)	(306,155)	(35,326)	(625,931)
Balance at end of year	3,345,404	7,893,528	1,941,742	1,855,565	61,489	15,097,728
Accumulated Depreciation and Amortization						
Balance at beginning of year	—	5,562,502	1,013,296	897,049	—	7,472,847
Depreciation and amortization	—	674,334	74,625	183,435	—	932,394
Disposals/transfers*	—	(157,787)	15,729	(42,467)	—	(184,525)
Balance at end of year	—	6,079,049	1,103,650	1,038,017	—	8,220,716
Allowance for Impairment Losses (Note 16)						
Balance at beginning of year	—	—	2,371	—	—	2,371
Reclassification	—	—	(1,223)	—	—	(1,223)
Balance at end of year	—	—	1,148	—	—	1,148
Net Book Value at End of Year	₱3,345,404	₱1,814,479	₱836,944	₱817,548	₱61,489	₱6,875,864

*Includes transfers from investment properties amounting to ₱10.82 million.



Parent Company						
	Land (Note 23)	Furniture, Fixtures and Equipment	Buildings	Leasehold Improvements	Construction- in-Progress	2018 Total
Cost						
Balance at beginning of year	2,786,310	6,668,301	1,085,668	1,351,869	61,486	11,953,634
Additions	—	498,101	16,235	223,957	86,804	825,097
Disposals/transfers*	—	(537,615)	2,127	(39,802)	(123,565)	(698,855)
Balance at end of year	2,786,310	6,628,787	1,104,030	1,536,024	24,725	12,079,876
Accumulated Depreciation and Amortization						
Balance at beginning of year	—	5,189,416	543,875	755,761	—	6,489,052
Depreciation and amortization	—	557,586	36,010	148,934	—	742,530
Disposals/transfers*	—	(365,749)	618	(51,961)	—	(417,092)
Balance at end of year	—	5,381,253	580,503	852,734	—	6,814,490
Net Book Value at End of Year	2,786,310	1,247,534	523,527	683,290	24,725	5,265,386

*Includes transfers from investment properties amounting to ₱20.13 million.

Parent Company						
	Land (Note 23)	Furniture, Fixtures and Equipment	Buildings	Leasehold Improvements	Construction- in-Progress	2017 Total
Cost						
Balance at beginning of year	₱2,786,310	₱6,082,009	₱1,077,608	₱1,093,494	₱80,139	₱11,119,560
Additions	—	786,776	40,422	550,076	10,410	1,387,684
Disposals/transfers*	—	(200,484)	(32,362)	(291,701)	(29,063)	(553,610)
Balance at end of year	2,786,310	6,668,301	1,085,668	1,351,869	61,486	11,953,634
Accumulated Depreciation and Amortization						
Balance at beginning of year	—	4,775,377	517,491	682,711	—	5,975,579
Depreciation and amortization	—	537,338	26,456	115,273	—	679,067
Disposals/transfers*	—	(123,299)	(72)	(42,223)	—	(165,594)
Balance at end of year	—	5,189,416	543,875	755,761	—	6,489,052
Net Book Value at End of Year	₱2,786,310	₱1,478,885	₱541,793	₱596,108	₱61,486	₱5,464,582

*Includes transfers from investment properties amounting to ₱10.82 million.

The Group adopted the deemed cost model as of January 1, 2004 and considered the carrying value of the land determined under its previous accounting method (revaluation method) as the deemed cost of the asset as of January 1, 2005. Accordingly, revaluation increment amounting to ₱1.28 billion was closed to surplus (Note 23) in 2011.

As of December 31, 2018 and 2017, the gross carrying amount of fully depreciated furniture, fixtures and equipment still in use amounted to ₱3.47 billion and ₱2.89 billion, respectively, for the Group and ₱2.61 billion and ₱2.31 billion, respectively, for the Parent Company.

Gain on sale of furniture, fixtures and equipment amounting to ₱1.81 million, ₱2.11 million and ₱2.97 million in 2018, 2017 and 2016, respectively, for the Group and ₱1.60 million, ₱1.69 million and ₱2.17 million in 2018, 2017 and 2016, respectively, for the Parent Company are included in the statements of income under 'Miscellaneous income' account (Note 21).

In 2016, depreciation and amortization amounting to ₱842.22 million and ₱595.81 million for the Group and Parent Company, respectively, are included in the statements of income under 'Depreciation and amortization' account.



13. Investment Properties

The composition of and movements in this account follow:

	Consolidated		2018
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱4,605,061	₱2,646,549	₱7,251,610
Additions	135,099	408,334	543,433
Disposals/write-off/transfers*	(454,309)	(395,136)	(849,445)
Balance at end of year	4,285,851	2,659,747	6,945,598
Accumulated Depreciation and Amortization			
Balance at beginning of year	—	742,071	742,071
Depreciation and amortization	—	170,978	170,978
Disposals/write-off/transfers*	—	(32,285)	(32,285)
Balance at end of year	—	880,764	880,764
Allowance for Impairment Losses (Note 16)			
Balance at beginning of year	1,028,013	409,370	1,437,383
Write-off	(85,454)	(76,697)	(162,151)
Balance at end of year	₱942,559	₱332,673	₱1,275,232
Net Book Value at End of Year	₱3,343,292	₱1,446,310	₱4,789,602

*Includes transfers to bank premises amounting to ₱20.13 million (Note 12).

	Consolidated		2017
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱4,730,076	₱2,788,397	₱7,518,473
Additions	299,806	279,283	579,089
Disposals/write-off/transfers*	(424,821)	(421,131)	(845,952)
Balance at end of year	4,605,061	2,646,549	7,251,610
Accumulated Depreciation and Amortization			
Balance at beginning of year	—	755,763	755,763
Depreciation and amortization	—	191,338	191,338
Disposals/write-off/transfers*	—	(205,030)	(205,030)
Balance at end of year	—	742,071	742,071
Allowance for Impairment Losses (Note 16)			
Balance at beginning of year	1,028,013	384,958	1,412,971
Reversal during the year	—	24,412	24,412
Disposals/write-off/reclassification*	1,028,013	409,370	1,437,383
Balance at end of year	₱3,577,048	₱1,495,108	₱5,072,156
Net Book Value at End of Year	₱4,730,076	₱2,788,397	₱7,518,473

*Includes transfers to bank premises amounting to ₱10.82 million (Note 12).



	Parent Company		
	Land	Buildings and Improvements	2018 Total
Cost			
Balance at beginning of year	₱1,859,355	₱1,397,668	₱3,257,023
Additions	135,099	125,671	260,770
Disposals/write-off/transfers*	(574,177)	(193,400)	(767,577)
Balance at end of year	1,420,277	1,329,939	2,750,216
Accumulated Depreciation and Amortization			
Balance at beginning of year	—	500,102	500,102
Depreciation and amortization	—	89,928	89,928
Disposals/write-off/transfers*	—	(149,575)	(149,575)
Balance at end of year	—	440,455	440,455
Allowance for Impairment Losses (Note 16)			
Balance at beginning and end of year	1,004,729	201,689	1,206,418
Write-off	(85,454)	—	(85,454)
Balance at end of year	919,275	201,689	1,120,964
Net Book Value at End of Year	₱501,002	₱687,795	₱1,188,797

*Includes transfers to bank premises amounting to ₱20.13 million (Note 12).

	Parent Company		
	Land	Buildings and Improvements	2017 Total
Cost			
Balance at beginning of year	₱2,019,065	₱1,511,349	₱3,530,414
Additions	40,573	86,079	126,652
Disposals/write-off/transfers*	(200,283)	(199,760)	(400,043)
Balance at end of year	1,859,355	1,397,668	3,257,023
Accumulated Depreciation and Amortization			
Balance at beginning of year	—	563,120	563,120
Depreciation and amortization	—	104,638	104,638
Disposals/write-off/transfers*	—	(167,656)	(167,656)
Balance at end of year	—	500,102	500,102
Allowance for Impairment Losses (Note 16)			
Balance at beginning and end of year	1,004,729	201,689	1,206,418
Net Book Value at End of Year	₱854,626	₱695,877	₱1,550,503

*Includes transfers to bank premises amounting to ₱10.82 million (Note 12).

The Group's investment properties consist entirely of real estate properties acquired in settlement of loans and receivables. The difference between the fair value of the investment property upon foreclosure and the carrying value of the loan is recognized under 'Gain on asset foreclosure and dacion transactions' in the statements of income.

In 2016, depreciation and amortization amounting to ₱173.01 million and ₱98.92 million for the Group and Parent Company, respectively, are included in the statements of income under 'Depreciation and amortization' account.



Details of rental income earned and direct operating expenses incurred on investment properties follow:

	Consolidated		
	2018	2017	2016
Rent income on investment properties	₱35,323	₱32,499	₱20,190
Direct operating expenses on investment properties generating rent income	1,451	924	4,767
Direct operating expenses on investment properties not generating rent income	66,011	52,029	67,619
	Parent Company		
	2018	2017	2016
Rent income on investment properties	₱10,994	₱8,250	₱39,734
Direct operating expenses on investment properties generating rent income	649	799	886
Direct operating expenses on investment properties not generating rent income	29,584	33,405	44,089

Rent income earned from leasing out investment properties is included under ‘Miscellaneous income’ in the statements of income (Note 21).

On August 26, 2011, the Parent Company was registered as an Economic Zone Information Technology (IT) Facilities Enterprise with the Philippine Economic Zone Authority (PEZA) to operate and maintain a proposed 17-storey building located inside the CBP-IT Park in Barangays Mabolo, Luz, Hipodromo, Carreta, and Kamputhaw, Cebu City, for lease to PEZA-registered IT enterprises, and to be known as Chinabank Corporate Center. This registration is under PEZA Registration Certificate No. 11-03-F.

Under this registration, the Parent Company is entitled to five percent (5.00%) final tax on gross income earned from locator IT enterprises and related operations in accordance with existing PEZA rules. The Parent Company shall also be exempted from the payment of all national and local taxes in relation to this registered activity.

14. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the acquisition costs over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

The Group attributed the goodwill arising from its acquisition of CBSI and PDB to factors such as increase in geographical presence and customer base due to the branches acquired. None of the goodwill recognized is expected to be deductible for income tax purposes. CBSI as surviving entity from the merger with PDB, is the identified CGU for this goodwill. The Parent Company’s Retail Banking Business (RBB) has been identified as the CGU for impairment testing of the goodwill from its acquisition of CBSI.



As of December 31, 2018 and 2017, amount of goodwill per CGU follows:

	Consolidated	Parent Company
RBB	₱222,841	₱222,841
CBSI	616,907	—
Total	₱839,748	₱222,841

The recoverable amount of the CGUs have been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period, which do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. Other than loans and deposits growth rates, the significant assumptions, and the most sensitive, used in computing for the recoverable values of the CGUs follow:

	2018		2017	
	RBB	CBSI	RBB	CBSI
Discount rate	7.12%	9.81%	6.41%	7.83%
Terminal value growth rate	1.00%	1.00%	1.00%	1.00%

With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount as of December 31, 2018 and 2017.

Branch Licenses

Branch licenses of the Group arose from the acquisitions of CBSI, Unity Bank, and PDB. As of December 31, 2018 and 2017, details of branch licenses in the Group's and Parent Company's financial statements follow:

	Consolidated	Parent Company
Branch license from CBSI acquisition	₱420,600	₱398,000
Branch license from Unity Bank acquisition	347,400	—
Branch license from PDB acquisition (Note 11)	2,839,500	—
Total	₱3,607,500	₱398,000

The individual branches have been identified as the CGU for impairment testing of the branch licenses. The recoverable amounts of the CGUs for impairment testing of the branch licenses have been determined based on the higher between fair value less cost to sell and value-in-use calculations.

FVLCD is based on special licensing fee of BSP on branches operating on identified restricted areas. Value-in-use calculation uses cash flow projections from financial budgets approved by senior management covering a five-year period, which do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested.

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rates
- Terminal value growth rate used to extrapolate cash flows beyond the budget period



With regard to the assessment of value-in-use of the CGU, the Parent Company recognized an impairment loss related to certain unrestricted branch licenses from the acquisition of CBSI amounting to ₱57.00 million in 2017.

Capitalized software costs

The movements in the account follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Cost				
Balance at beginning of year	₱714,230	₱549,156	₱591,256	₱445,444
Additions	144,123	165,074	154,055	145,814
Disposals/Writeoff/Reclass	142,386	–	149,794	–
Balance at end of year	1,000,739	714,230	895,105	591,258
Accumulated Depreciation and Amortization				
Balance at beginning of year	217,697	123,940	188,395	94,861
Depreciation and amortization	115,840	93,757	115,450	93,535
Disposals/Writeoff/Reclass	73,740	–	73,729	–
Balance at end of year	407,277	217,697	377,574	188,396
Net Book Value at End of Year	593,462	₱496,533	₱517,531	₱402,862

15. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Financial assets				
Accounts receivable	₱2,595,023	₱2,884,628	₱1,480,760	₱1,686,205
SCR	1,121,035	979,046	224,035	208,496
RCOCI	129,142	179,935	117,227	83,636
Others	491,475	369,034	175,540	157,380
	4,336,675	4,412,643	1,997,562	2,135,717
Nonfinancial assets				
Net plan assets (Note 24)	777,827	995,050	756,160	991,386
Prepaid expenses	246,053	124,526	208,632	114,121
Creditable withholding taxes	338,618	378,143	338,618	321,231
Security deposit	272,541	231,838	193,216	205,400
Documentary stamps	215,696	309,642	149,078	182,778
Sundry debits	358,051	235,136	166,951	71,552
Miscellaneous	433,502	298,882	–	–
	2,642,288	2,573,217	1,812,655	1,886,468
	6,978,963	6,985,860	3,810,217	4,022,185
Allowance for impairment and credit losses (Note 16)	(759,404)	(766,965)	(477,454)	(540,960)
	₱6,219,558	₱6,218,895	₱3,332,763	₱3,481,225

Accounts receivable

Accounts receivable also includes non-interest bearing advances to officers and employees, with terms ranging from 1 to 30 days and receivables of the Parent Company from automated teller machine (ATM) transactions of clients of other banks that transacted through any of the Parent Company's ATM terminals.



Sales Contract Receivable

This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

SCR bears fixed interest rate per annum in 2018 and 2017 ranging from 5.00% to 10.00% and 5.00% to 10.25%, respectively.

Miscellaneous

Miscellaneous consists mainly of unissued stationery and supplies, inter-office float items, and deposits for various services.

16. Allowance for Impairment and Credit Losses

Changes in the allowance for impairment and credit losses are as follows:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Balances at beginning of year				
Loans and receivables	₱8,121,175	₱6,654,995	₱6,500,542	₱5,709,025
Investment properties	1,437,383	1,412,971	1,206,418	1,206,418
Accrued interest receivable	201,647	179,339	58,269	62,019
AFS financial assets	128,171	38,742	6,323	6,323
Investment securities at amortized cost	—	—	83,618	—
Bank premises, furniture, fixtures and equipment	1,148	2,371	—	—
Intangible assets	—	—	—	—
Other assets	781,424	718,434	540,960	614,366
	10,670,948	9,006,852	8,396,130	7,598,151
Provisions charged to operations	141,076	754,171	(1,957)	423,922
Accounts charged off and others	(1,260,874)	(1,012,065)	(1,109,856)	(1,100,523)
	(1,119,798)	(257,894)	(1,111,813)	(676,601)
Balances at end of year				
Loans and receivables (Note 10)	6,829,280	6,339,183	5,425,713	5,109,580
Investment properties (Note 13)	1,275,232	1,437,383	1,120,965	1,206,418
Accrued interest receivable	303,555	165,452	45,247	58,269
AFS financial assets (Note 9)	(4,023)	38,827	—	—
Investment securities at amortized cost	375,102	—	214,938	—
Bank premises, furniture, fixtures and equipment (Note 12)	—	1,148	—	—
Other assets (Note 15)	772,004	766,965	477,454	540,960
	₱9,551,150	₱8,748,958	₱7,284,317	₱6,921,550

At the current level of allowance for impairment and credit losses, management believes that the Group has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its loans and receivables and other risk assets.

The separate valuation allowance of acquired loans and receivables from PDB amounting to ₱1.59 billion was not recognized by the Group on the effectivity date of acquisition as these receivables were measured at fair value at acquisition date. Any uncertainties about future cash flows of these receivables were included in their fair value measurement (Note 11). Also, the separate valuation allowance of acquired investment properties from PDB amounting to ₱199.15 million was not recognized by the Group on the effectivity date of acquisition as these properties were measured at fair value on acquisition date.



The tables below illustrate the movements of the allowance for impairment and credit losses during the year (effect of movements in ECL due to transfers between stages are shown in the total column):

	Consolidated			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Corporate and commercial lending				
Loss allowance at January 1, 2018	1,567,376	2,540,760	1,866,388	5,974,524
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(14,441)	28,817	-	14,376
Transfer from Stage 1 to Stage 3	(239)	-	16,030	15,791
Transfer from Stage 2 to Stage 1	88,811	(610,794)	-	(521,983)
Transfer from Stage 2 to Stage 3	-	(127)	12,175	12,048
Transfer from Stage 3 to Stage 1	835	-	(1,524)	(689)
Transfer from Stage 3 to Stage 2	-	402	(41,564)	(41,162)
New financial assets originated or purchased	1,659,492	82,660	326,658	2,068,810
Changes in PDs/LGDs/EADs	(133,642)	(1,009,545)	9,740	(1,133,447)
Financial assets derecognised during the period	(282,839)	(29,273)	(530,585)	(842,697)
Total net P&L charge during the period	1,317,977	(1,537,860)	(209,070)	(428,953)
Other movements without P&L impact				
Write-offs, foreclosures and other movements	(110,226)	(19,240)	(67,211)	(196,677)
Total movements without P&L impact	(110,226)	(19,240)	(67,211)	(196,677)
Loss allowance at December 31, 2018	2,775,127	983,660	1,590,107	5,348,894

	Consolidated			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<u>Consumer lending</u>				
Loss allowance at January 1, 2018	98,783	180,441	1,262,884	1,542,108
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(222)	919	-	697
Transfer from Stage 1 to Stage 3	(1,548)	-	73,986	72,438
Transfer from Stage 2 to Stage 1	628	(2,447)	-	(1,819)
Transfer from Stage 2 to Stage 3	-	(567)	143,142	142,575
Transfer from Stage 3 to Stage 1	188	-	(12,493)	(12,305)
Transfer from Stage 3 to Stage 2	-	31	(4,990)	(4,959)
New financial assets originated or purchased	130,472	(270,546)	54,037	(86,037)
Changes in PDs/LGDs/EADs	1,952	(3,359)	(824)	(2,231)
Financial assets derecognised during the period	(2,032)	112,104	132,792	242,864
Total net P&L charge during the period	129,438	(163,865)	385,650	351,223
Other movements without P&L impact				
Write-offs, foreclosures and other movements	(4,839)	-	(506,957)	(511,796)
Total movements without P&L impact	(4,839)	-	(506,957)	(511,796)
Loss allowance at December 31, 2018	223,382	16,576	1,141,577	1,381,535



	Consolidated			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Trade-related lending				
Loss allowance at January 1, 2018	56,619	5,195	33,872	95,686
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased	48,922	25,774	-	74,696
Changes in PDs/LGDs/EADs	-	-	-	-
Financial assets derecognised during the period	(51,863)	(587)	1,225	(51,225)
Total net P&L charge during the period	(2,941)	25,187	1,225	23,471
Other movements without P&L impact				
Write-offs, foreclosures and other movements	-	(4,608)	(15,697)	(20,305)
Total movements without P&L impact	-	(4,608)	(15,697)	(20,305)
Loss allowance at December 31, 2018	53,678	25,774	19,400	98,852

	Consolidated			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Investments in debt instruments (AC)				
Loss allowance at January 1, 2018	5,818	532,164	151,836	689,818
Total net P&L charge during the period	142,818	(8,989)	-	133,828
Write-offs, foreclosures and other movements	60,312	(508,858)	-	(448,545)
Loss allowance at December 31, 2018	208,949	14,317	151,836	375,102

	Consolidated			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Investments in debt instruments (FVOCI)				
Loss allowance at January 1, 2018	4,061	0	-	4,061
Total net P&L charge during the period	(565)	2	-	(564)
Write-offs, foreclosures and other movements	-	-	-	-
Loss allowance at December 31, 2018	3,496	2	-	3,498

	Consolidated					
	2017					
	Loans and Receivables				AFS Financial Assets	
	Corporate and Commercial Lending	Consumer Lending	Trade-related Lending	Others	Total	Unquoted Equity Securities
Balance at beginning of year	P4,593,387	P1,631,460	P277,623	P152,525	P6,654,995	P38,742
Provisions (recoveries) during the year	224,815	453,404	158	-	678,377	-
Transfers/others	(897,841)	(5,000)	(91,205)	(143)	(994,189)	85
Balance at end of year	P3,920,361	P2,079,864	P186,576	P152,382	P6,339,183	P38,827
Individual impairment	P950,102	P925,165	P54,429	P151,836	P2,081,532	P38,827
Collective impairment	2,970,259	1,154,699	132,147	546	4,257,651	-
	P3,920,361	P2,079,864	P186,576	P152,382	P6,339,183	P38,827



	Parent			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Corporate and commercial lending				
Loss allowance at January 1, 2018	1,463,125	2,504,510	1,145,534	5,113,169
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(12,166)	26,542	-	14,376
Transfer from Stage 1 to Stage 3	(149)	-	15,940	15,791
Transfer from Stage 2 to Stage 1	87,675	(609,658)	-	(521,983)
Transfer from Stage 2 to Stage 3	-	(91)	12,139	12,048
Transfer from Stage 3 to Stage 1	3	-	(692)	(689)
Transfer from Stage 3 to Stage 2	-	402	(41,564)	(41,162)
New financial assets originated or purchased	1,560,644	79,805	97,884	1,738,333
Changes in PDs/LGDs/EADs	(133,642)	(1,009,545)	9,740	(1,133,447)
Financial assets derecognised during the period	(209,096)	(10,947)	(262,008)	(482,051)
Total net P&L charge during the period	1,293,269	(1,523,492)	(168,561)	(398,784)
Other movements without P&L impact				
Write-offs, foreclosures and other movements	(110,226)	(19,240)	(67,211)	(196,677)
Total movements without P&L impact	(110,226)	(19,240)	(67,211)	(196,677)
Loss allowance at December 31, 2018	2,646,168	961,778	909,762	4,517,708

	Parent			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Consumer lending				
Loss allowance at January 1, 2018	72,857	13,726	708,170	794,753
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(222)	919	-	697
Transfer from Stage 1 to Stage 3	(1,548)	-	73,986	72,438
Transfer from Stage 2 to Stage 1	628	(2,447)	-	(1,819)
Transfer from Stage 2 to Stage 3	-	(567)	143,142	142,575
Transfer from Stage 3 to Stage 1	188	-	(12,493)	(12,305)
Transfer from Stage 3 to Stage 2	-	31	(4,990)	(4,959)
New financial assets originated or purchased	27,182	1,999	74,735	103,916
Changes in PDs/LGDs/EADs	1,952	(3,359)	(824)	(2,231)
Financial assets derecognised during the period	(2,032)	(4,581)	19,358	12,745
Total net P&L charge during the period	26,148	(8,005)	292,914	311,057
Other movements without P&L impact				
Write-offs, foreclosures and other movements	(4,839)	-	(287,062)	(291,901)
Total movements without P&L impact	(4,839)	-	(287,062)	(291,901)
Loss allowance at December 31, 2018	94,166	5,721	714,022	813,909

	Parent			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Trade-related lending				
Loss allowance at January 1, 2018	44,695	5,195	33,872	83,762
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased	48,922	25,774	-	74,696
Changes in PDs/LGDs/EADs	-	-	-	-
Financial assets derecognised during the period	(44,695)	(587)	1,225	(44,057)
Total net P&L charge during the period	4,227	25,187	1,225	30,639
Other movements without P&L impact				
Write-offs, foreclosures and other movements	-	(4,608)	(15,697)	(20,305)
Total movements without P&L impact	-	(4,608)	(15,697)	(20,305)
Loss allowance at December 31, 2018	48,922	25,774	19,400	94,096



	Parent			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Investments in debt instruments (AC)				
Loss allowance at January 1, 2018	-	532,164	-	532,164
Total net P&L charge during the period	140,309	(8,989)	-	131,320
Write-offs, foreclosures and other movements	60,312	(508,858)	-	(448,545)
Loss allowance at December 31, 2018	200,622	14,317	-	214,938

	Parent			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Investments in debt instruments (FVOCI)				
Loss allowance at January 1, 2018	4,061	0	-	4,061
Total net P&L charge during the period	(565)	2	-	(564)
Write-offs, foreclosures and other movements	-	-	-	-
Loss allowance at December 31, 2018	3,496	2	-	3,498

	Parent						
	2017						
	Loans and Receivables				AFS Financial Assets		
	Corporate and Commercial Lending	Consumer Lending	Trade-related Lending	Others	Total	Unquoted Equity Securities	Accrued Interest Receivable
Balance at beginning of year	P4,381,126	P1,061,364	P265,846	P689	P5,709,025	P6,323	P62,019
Provisions (recoveries) during the year	138,503	252,010	158	-	390,671	-	141
Transfers/others	(898,767)	-	(91,206)	(143)	(990,116)	-	(3,891)
Balance at end of year	P3,620,862	P1,313,374	P174,798	P546	P5,109,580	P6,323	P58,269
Individual impairment	P728,378	P925,165	P46,061	P-	P1,699,604	P6,323	P58,269
Collective impairment	2,892,484	388,209	128,737	546	3,409,976	-	-
	P3,620,862	P1,313,374	P174,798	P546	P5,109,580	P6,323	P58,269

The corresponding movement of the gross carrying amount of the financial asset are shown below:

	Consolidated			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Corporate and commercial lending				
Gross carrying amount as at January 1, 2018	343,382,501	21,959,934	3,803,100	369,145,536
Transfers:				
Transfer from Stage 1 to Stage 2	(2,204,591)	2,204,591	-	-
Transfer from Stage 1 to Stage 3	(541,790)	-	541,790	-
Transfer from Stage 2 to Stage 1	5,741,579	(5,741,579)	-	-
Transfer from Stage 2 to Stage 3	-	(110,906)	110,906	-
Transfer from Stage 3 to Stage 1	4,599	-	(4,599)	-
Transfer from Stage 3 to Stage 2	-	58,581	(58,581)	-
Movements in outstanding balance	-12,748,731	-1,385,560	(68,568)	(14,202,859)
Financial assets derecognised during the period	(146,379,371)	(4,302,610)	(647,546)	(151,329,527)
New financial assets purchased or originated	203,356,235	4,842,239	204,531	208,403,004
Write-offs	(49,904)	-	(45,800)	(95,704)
Foreclosures	(20,000)	(100,000)	-	(120,000)
Gross carrying amount as at December 31, 2018	390,540,527	17,424,690	3,835,233	411,800,451



	Consolidated			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Consumer lending				
Gross carrying amount as at January 1, 2018	59,172,559	11,538,435	3,147,219	73,858,213
Transfers:				
Transfer from Stage 1 to Stage 2	(297,371)	297,371	-	-
Transfer from Stage 1 to Stage 3	(695,183)		695,183	-
		-		
Transfer from Stage 2 to Stage 1	385,789	(385,789)	-	-
Transfer from Stage 2 to Stage 3	-	(241,795)	241,795	-
Transfer from Stage 3 to Stage 1	94,603		(94,603)	-
		-		
Transfer from Stage 3 to Stage 2	-	7,300	(7,300)	-
Movements in outstanding balance	(5,137,045)	(841,339)	(42,527)	(6,020,911)
Financial assets derecognised during the period	(6,609,339)	(7,913,933)	(310,274)	(14,833,546)
New financial assets purchased or originated	33,786,248	750,348	213,449	34,750,046
Write-offs	(568)		(503,842)	(504,409)
		-		
Foreclosures	(8,052)		(26,400)	(34,452)
		-		
Gross carrying amount as at December 31, 2018	80,691,641	3,210,598	3,312,700	87,214,939

	Consolidated			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Trade-related lending				
Gross carrying amount as at January 1, 2018	11,023,818	1,185,331	40,138	12,249,287
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Movements in outstanding balance	3,437,693	-	-	3,437,693
Financial assets derecognised during the period	(13,581,251)	(1,180,722)	(1,122)	(14,763,096)
New financial assets purchased or originated	11,229,908	1,684,378	-	12,914,287
Write-offs	-	(4,608)	(12,455)	(17,063)
Foreclosures	-	-	(3,242)	(3,242)
Gross carrying amount as at December 31, 2018	12,110,169	1,684,378	23,319	13,817,866

	Consolidated			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Investments in amortised cost				
Gross carrying amount as at January 1, 2018	106,283,139	1,491,862	-	107,775,001
Transfers:				
Transfer from Stage 1 to Stage 2	(1,503,373)	1,503,373	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	1,015,768	(1,015,768)	-	-
Transfer from Stage 2 to Stage 3	-	(508,880)	508,880	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Movements in outstanding balance	-	-	-	-
Financial assets derecognised during the period	(1,499,195)	-	(508,880)	(2,008,075)
New financial assets purchased or originated	59,725,675	3,678,571	-	63,404,246
Other movements	3,556,344	32,786	151,836	3,740,965
Gross carrying amount as at December 31, 2018	167,578,357	5,181,944	151,836	172,912,137



	Consolidated			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Investments at FVOCI (debt)				
Gross carrying amount as at January 1, 2018	7,139,941	-	-	7,139,941
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Movements in outstanding balance	-	-	-	-
Financial assets derecognised during the period	(1,301,024)	-	-	(1,301,024)
New financial assets purchased or originated	5,548,115	-	-	5,548,115
Other movements	(1,392,669)	-	-	(1,392,669)
Gross carrying amount as at December 31, 2018	9,994,362	-	-	9,994,362

	Parent			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Corporate and commercial lending				
Gross carrying amount as at January 1, 2018	314,896,868	20,860,133	1,396,331	337,153,332
Transfers:				
Transfer from Stage 1 to Stage 2	(1,614,808)	1,614,808	-	-
Transfer from Stage 1 to Stage 3	(16,150)	-	16,150	-
Transfer from Stage 2 to Stage 1	5,416,311	(5,416,311)	-	-
Transfer from Stage 2 to Stage 3	-	(22,537)	22,537	-
Transfer from Stage 3 to Stage 1	471	-	(471)	-
Transfer from Stage 3 to Stage 2	-	58,581	(58,581)	-
Movements in outstanding balance	(13,147,095)	(1,041,488)	(12,753)	(14,201,336)
Financial assets derecognised during the period	(138,623,015)	(3,962,344)	(410,260)	(142,995,619)
New financial assets purchased or originated	196,692,368	4,810,531	160,778	201,663,677
Write-offs	(49,904)	-	(45,800)	(95,705)
Foreclosures	(20,000)	(100,000)	-	(120,000)
Gross carrying amount as at December 31, 2018	363,535,045	16,801,373	1,067,931	381,404,350

	Parent			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Consumer lending				
Gross carrying amount as at January 1, 2018	35,519,556	7,085,076	1,430,659	44,035,292
Transfers:				
Transfer from Stage 1 to Stage 2	(297,371)	297,371	-	-
Transfer from Stage 1 to Stage 3	(695,183)	-	695,183	-
Transfer from Stage 2 to Stage 1	385,789	(385,789)	-	-
Transfer from Stage 2 to Stage 3	-	(241,795)	241,795	-
Transfer from Stage 3 to Stage 1	94,603	-	(94,603)	-
Transfer from Stage 3 to Stage 2	-	7,300	(7,300)	-
Movements in outstanding balance	(4,831,880)	(902,628)	(42,526)	(5,777,034)
Financial assets derecognised during the period	(4,044,525)	(3,588,822)	(141,242)	(7,774,589)
New financial assets purchased or originated	21,786,039	553,104	180,687	22,519,829
Write-offs	(568)	-	(283,947)	(284,514)
Foreclosures	(8,052)	-	(26,400)	(34,452)
Gross carrying amount as at December 31, 2018	47,908,408	2,823,817	1,952,306	52,684,532



	Parent			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Trade-related lending				
Gross carrying amount as at January 1, 2018	9,462,533	1,185,331	40,138	10,688,002
Transfers:				
Transfer from Stage 1 to Stage 2	—	—	—	—
Transfer from Stage 1 to Stage 3	—	—	—	—
Transfer from Stage 2 to Stage 1	—	—	—	—
Transfer from Stage 2 to Stage 3	—	—	—	—
Transfer from Stage 3 to Stage 1	—	—	—	—
Transfer from Stage 3 to Stage 2	—	—	—	—
Movements in outstanding balance	—	—	—	—
Financial assets derecognised during the period	(9,462,533)	(1,180,722)	(1,122)	(10,644,378)
New financial assets purchased or originated	11,229,908	1,684,378	—	12,914,287
Write-offs	—	(4,608)	(12,455)	(17,063)
Foreclosures	—	—	(3,242)	(3,242)
Gross carrying amount as at December 31, 2018	11,229,908	1,684,378	23,319	12,937,606

	Parent			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Investments in amortised cost				
Gross carrying amount as at January 1, 2018	101,081,352	1,491,862	-	102,573,214
Transfers:				
Transfer from Stage 1 to Stage 2	(1,503,373)	1,503,373	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	1,015,768	(1,015,768)	-	-
Transfer from Stage 2 to Stage 3	-	(508,880)	508,880	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Movements in outstanding balance	-	-	-	-
Financial assets derecognised during the period	(1,499,195)	-	(508,880)	(2,008,075)
New financial assets purchased or originated	56,300,580	3,678,571	-	59,979,151
Other movements	3,462,329	32,786	-	3,495,114
Gross carrying amount as at December 31, 2018	158,857,460	5,181,944	-	164,039,404

Parent	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<u>Investments at FVOCI (debt)</u>				
Gross carrying amount as at January 1, 2018	5,147,303	—	—	5,147,303
Transfers:				
Transfer from Stage 1 to Stage 2	—	—	—	—
Transfer from Stage 1 to Stage 3	—	—	—	—
Transfer from Stage 2 to Stage 1	—	—	—	—
Transfer from Stage 2 to Stage 3	—	—	—	—
Transfer from Stage 3 to Stage 1	—	—	—	—
Transfer from Stage 3 to Stage 2	—	—	—	—
Movements in outstanding balance	—	—	—	—
Financial assets derecognised during the period	(1,107,221)	-	-	(1,107,221)
New financial assets purchased or originated	5,265,658	-	-	5,265,658
Other movements	(1,164,380)	-	-	(1,163,733)
Gross carrying amount as at December 31, 2018	8,141,359	-	-	8,141,359



While the Group recognizes through the statement of income the movements in the expected credit losses computed using the models, the Group also complies with BSP's regulatory requirement to appropriate a portion of its retained earnings at an amount necessary to bring to at least 1% the allowance for credit losses on loans (Note 23). In 2018, the amount of retained earnings appropriated for this purpose increased by ₱340.41 million for both the Group and the Parent Company.

	Consolidated			Parent		
	2018	2017	2016	2018	2017	2016
Provision for Impairment and Credit Losses	₱141,076	₱754,171	₱850,546	(₱1,957)	₱423,922	₱521,475
Retained Earnings, appropriated	340,409	—	—	340,409	—	—
	₱481,485	₱754,171	₱850,546	₱338,452	₱423,922	₱521,475

17. Deposit Liabilities

As of December 31, 2018 and 2017, 33.64% and 36.13% respectively, of the total deposit liabilities of the Group and 37.56% and 40.19% of the parent are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rates ranging from 0.13% to 4.55% in 2018, 0.13% to 3.65% in 2017, 0.13% to 3.25% in 2016, 0.13% to 2.75% in 2015 and 2014.

Interest Expense on Deposit Liabilities

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Demand	₱257,129	₱233,984	₱197,595	₱182,521	₱163,524	₱143,917
Savings	3,491,085	1,120,422	819,991	3,429,446	1,072,849	567,447
Time	7,873,305	5,167,529	3,813,969	6,124,047	3,974,430	2,917,763
	₱11,621,609	₱6,521,935	₱4,831,555	9,738,032	₱5,210,803	₱3,629,127

BSP Circular No. 830 requires reserves against deposit liabilities. As of December 31, 2018 and 2017, due from BSP amounting to ₱100.06 billion and ₱95.90 billion, respectively, for the Group and ₱93.26 billion and ₱89.17 billion, respectively, for the Parent Company were set aside as reserves for deposit liabilities per latest report submitted BSP. As of December 31, 2018 and 2017, the Group is in compliance with such regulation.

LTNCD

On August 3, 2016, the BOD of the Parent Company approved the issuance of Long Term Negotiable Certificates of Deposits (LTNCD) of up to ₱20.00 billion in tranches of ₱5.00 billion to ₱10.00 billion each and with tenors ranging from 5 to 7 years to support the Group's strategic initiatives and business growth. On October 27, 2016, the Monetary Board of the BSP approved the LTNCD issuances. On November 18, 2016, the Parent Company issued the first tranche at par with aggregate principal amount of ₱9.58 billion due May 18, 2022. The LTNCDs bear a fixed coupon rate of 3.65% per annum, payable quarterly in arrears. Subject to BSP rules, the Group has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

On June 2, 2017, the Parent Company issued at par LTNCDs with aggregate principal amount of ₱6.35 billion due December 22, 2022, representing the second tranche of the ₱20.00 billion.

On March 7, 2018, the Board of Directors approved the Bank's Peso funding program of up to ₱50 billion via a combination of Long-Term Negotiable Certificate of Time Deposit and/or Retail Bonds and/or Commercial Papers.



On July 12, 2018, the Parent Company issued at par LTNCDs with aggregate principal amount of ₱10.25 billion due January 12, 2024, representing the first tranche of the ₱20 billion LTNCD approved by BSP on June 14, 2018. The LTNCDs bear a fixed coupon rate of 4.55% per annum, payable quarterly in arrears. The ₱20 billion LTNCD program is part of the Group's funding program amounting to ₱50 billion.

The LTNCDs are included under the 'Time deposit liabilities' account.

18. Bills Payable

Bills Payable

The Group's and the Parent Company's bills payable consist of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Interbank loans payable	₱ 28,426,800	₱16,378,274	₱ 28,426,800	₱16,378,274
Trade finance	5,804,832	3,739,757	5,804,832	3,739,757
BPS rediscounting (Note 10)	4,132,800	–	4,132,800	–
Promissory Notes	1,462,100	–	1,462,100	–
	₱39,826,532	₱20,118,031	₱39,826,532	₱20,118,031

Interbank loans payable

Interbank loans payable consists of short-term dollar-denominated borrowings of the Parent Company with annual interest ranging from 3.11% to 4.73% and from 0.12% to 2.28% in 2018 and 2017, respectively.

As of December 31, 2018, the carrying amount of foreign currency-denominated investment securities at amortized cost and FVOCI pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱13.32 billion and ₱0.73 billion, respectively. The carrying amount of peso-denominated investment securities at amortized cost pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱20.69 billion. The fair value of investment securities at amortized cost pledged as collateral amounted to ₱31.86 billion as of December 31, 2018 (Note 9).

As of December 31, 2017, the carrying amount of foreign currency-denominated HTM and AFS financial assets pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱3.43 billion and ₱3.72 billion, respectively. The carrying amount of peso-denominated HTM, AFS and HFT financial assets pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱10.25 billion, ₱0.10 billion and ₱0.49 billion, respectively. The fair value of HTM financial assets pledged as collateral amounted to ₱13.24 billion as of December 31, 2017 (Note 9).

As of December 31, 2018 and 2017, margin deposits amounting to ₱930.82 billion and ₱497.26 million, respectively, are deposited with various counterparties to meet the collateral requirements for its interbank loans payable.

Trade finance

As of December 31, 2018 and 2017, trade finance consists of the Parent Company's borrowings from financial institutions using bank trade assets as the basis for borrowing foreign currency. The refinancing amount should not exceed the aggregate amount of trade assets.



19. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Accrued interest payable	₱1,737,659	₱813,068	₱1,513,147	₱707,342
Accrued payable for employee benefits	958,643	963,774	958,643	956,348
Accrued taxes and other licenses	229,059	116,158	149,088	96,153
Accrued lease payable	198,759	166,246	198,759	162,875
Accrued other expenses payable	718,405	568,373	522,515	361,230
	₱3,842,525	₱2,627,619	₱3,342,152	₱2,283,948

20. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Financial liabilities				
Accounts payable	₱3,426,924	₱3,131,826	₱2,248,710	₱1,827,956
Due to PDIC	628,142	531,645	628,142	531,645
Acceptances payable	348,738	469,518	357,832	469,518
Other credits—dormant	241,720	281,008	241,720	213,681
Due to the Treasurer of the Philippines	386,930	43,174	378,871	33,950
Margin deposits	3,359	3,004	3,359	3,004
Expected credit losses on off—balance sheet exposures	1,629,150	—	1,619,131	—
Miscellaneous (Note 23)	682,487	938,901	301,701	430,041
	7,347,450	5,399,076	5,779,466	3,509,795
Nonfinancial liabilities				
Withholding taxes payable	325,508	202,174	270,346	155,320
Retirement liabilities (Note 24)	8,686	119,451	—	—
	334,194	321,625	270,346	155,320
	₱7,681,644	₱5,720,701	₱6,049,812	₱3,665,115

Accounts payable includes payables to suppliers and service providers, and loan payments and other charges received from customers in advance.

Off-balance sheet exposures (see Note 30) subject to ECL include syndicated and long-term lines. ECL for these exposures that was recognized on January 1, 2018 amounted to ₱1.67 billion for the Group and ₱1.61 billion for the Parent Company.

Miscellaneous mainly includes sundry credits, inter—office float items, and dormant deposit accounts.



21. Other Operating Income and Miscellaneous Expenses

Service Charges, Fees and Commissions

Details of this account are as follows:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Service and collection charges:						
Deposits	₱606,051	₱540,323	₱597,294	₱606,051	₱539,941	₱535,397
Loans	330,520	276,054	214,237	330,520	34,758	40,301
Remittances	303,817	311,768	302,184	47,397	311,768	302,184
Others	109,290	112,725	114,791	107,652	99,116	93,452
	1,349,677	1,240,870	1,228,506	1,091,620	985,583	971,334
Fees and commissions	1,427,605	1,200,854	894,963	438,107	409,415	348,114
	₱2,777,283	₱2,441,724	₱2,123,469	₱1,529,727	₱1,394,998	₱1,319,448

Trading and Securities Gain – Net

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
AFS financial assets	(₱2,104)	₱363,350	₱918,673	(₱2,451)	₱340,351	₱856,031
Financial assets designated at FVPL (Note 9)	(36,766)	170,352	111,615	(40,831)	170,352	111,615
Held-for-trading (Note 9)	(224,583)	(55,257)	(135,709)	(224,583)	(112,458)	(138,286)
Derivative assets (Note 25)	(19,827)	(3,510)	23,510	(19,827)	(3,510)	23,510
HTM financial assets	11,728	5,025	–	11,728	5,025	–
	(₱271,552)	₱479,960	₱918,089	₱(275,964)	₱399,760	₱852,870

Miscellaneous Income

Details of this account are as follows:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Bancassurance (Note 11)	₱357,786	₱360,009	₱383,483	₱357,786	360,009	383,483
Dividends (Note 9)	127,084	91,073	193,229	126,386	91,073	193,229
Recovery of charged off assets	144,924	199,014	18,734	100,517	184,272	10,523
Rental on bank premises	111,572	111,651	91,591	80,388	83,911	67,134
Fund transfer fees	49,171	59,682	50,658	49,171	59,682	50,658
Rental safety deposit boxes	26,341	24,933	24,627	26,341	24,825	24,269
Miscellaneous income (Notes 12, 13 and 15)	444,863	670,161	116,122	389,545	587,884	70,801
	₱1,261,741	₱1,516,523	₱878,445	₱1,130,134	₱1,391,657	₱800,097

On April 11, 2017, the BTr paid the Group the final tax withheld (FWT) from the proceeds of the Poverty Eradication and Alleviation Certificates (PEACE) bonds last October 18, 2011, plus 4.00% interest per annum from October 19, 2011 to April 10, 2017. Total settlement amount were paid in the form of 3-year Retail Treasury Bonds with interest of 4.25% per annum. The settlement resulted in gain amounting to ₱381.65 million and ₱356.77 million for the Group and Parent Company, respectively, which is presented under ‘Miscellaneous income’ in 2017.

Miscellaneous Expenses

Details of this account are as follows:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Information technology	₱231,895	₱402,314	₱108,458	₱231,895	₱339,214	₱227,627
Service charges	500,459	219,430	225,889	452,540	219,430	225,889
Litigations	198,011	176,602	117,363	65,157	22,815	43,261
Freight	37,593	38,909	34,331	24,352	27,953	27,354
Broker's fee	35,843	39,129	12,403	31,891	39,128	12,403
Clearing and processing fee	22,024	21,252	27,379	17,355	16,320	24,525
Membership fees and dues	17,756	18,642	29,329	16,260	17,160	28,135
Miscellaneous expense	1,011,053	951,274	518,834	779,702	808,638	352,295
	₱ 2,054,634	₱1,867,552	₱1,073,986	₱ 1,619,152	₱1,490,658	₱941,489



22. Maturity Analysis of Assets and Liabilities

The following tables present both the Group's and Parent Company's assets and liabilities as of December 31, 2018 and 2017 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from the respective reporting date:

	Consolidated					
	2018			2017		
	Within Twelve Months	Over Twelve Months	Total	Within Twelve Months	Over Twelve Months	Total
Financial assets						
Cash and other cash items	₱15,639,474	₱—	₱15,639,474	₱12,685,984	₱—	₱12,685,984
Due from BSP	101,889,773	—	101,889,773	98,490,014	—	98,490,014
Due from other banks	9,455,447	—	9,455,447	15,641,476	—	15,641,476
Interbank loans receivable and SPURA	11,998,040	—	11,998,040	18,751,845	—	18,751,845
Financial assets at FVPL	6,273,368	1,322,894	7,596,262	12,730,270	3,508,618	16,238,888
Financial assets at FVOCI						
AFS financial assets – gross	1,364,962	8,732,542	10,097,504	7,389,865	39,094,353	46,484,218
Investment securities at amortized cost						
HTM financial assets	9,893,261	163,018,876	172,912,137	628,196	64,658,071	65,286,267
Loans and receivables – gross	166,260,382	346,629,390	512,889,772	163,581,848	292,036,163	455,618,011
Accrued interest receivable – gross	6,000,736	—	6,000,736	3,883,957	—	3,883,957
Other assets – gross	3,294,964	1,121,036	4,416,000	3,188,970	1,223,673	4,412,643
	332,070,407	520,824,738	852,895,145	336,972,425	400,520,878	737,493,303
Nonfinancial assets						
Bank premises, furniture, fixtures and equipment – net of accumulated depreciation and amortization	—	6,450,458	6,450,458	—	6,877,012	6,877,012
Investment properties – net of accumulated depreciation	—	6,064,835	6,064,835	—	6,509,539	6,509,539
Deferred tax assets	—	2,514,889	2,514,889	—	1,778,081	1,778,081
Investments in associates	—	335,092	335,092	—	329,422	329,422
Intangible assets	—	4,215,199	4,215,199	—	4,104,032	4,104,032
Goodwill	—	839,748	839,748	—	839,748	839,748
Other assets – gross	1,351,634	1,211,331	2,562,965	1,281,008	1,292,209	2,573,217
	1,351,634	21,631,552	22,983,186	1,281,008	21,730,043	23,011,051
Allowance for impairment and credit losses (Note 16)			(9,551,150)			(8,748,958)
Unearned discounts (Note 10)			(255,535)			(307,886)
			(9,806,685)			(9,056,844)
			₱866,071,646			₱751,447,510
Financial liabilities						
Deposit liabilities	682,760,286	39,363,010	722,123,296	₱602,734,404	₱32,358,989	₱635,093,393
Bills payable	39,826,532	—	39,826,532	20,118,031	—	20,118,031
Manager's checks	2,577,175	—	2,577,175	2,441,042	—	2,441,042
Accrued interest and other expenses*	2,098,994	352,335	2,451,329	1,114,252	267,189	1,381,441
Derivative liabilities	455,150	—	455,150	267,533	—	267,533
Other liabilities	6,110,225	1,213,812	7,324,037	5,399,076	—	5,399,076
	733,828,362	40,929,157	774,757,519	632,074,338	32,626,178	664,700,516
Nonfinancial liabilities						
Accrued interest and other expenses	161,542	1,229,654	1,391,196	105,468	1,140,710	1,246,178
Deferred tax liabilities	—	1,231,145	1,231,145	—	1,161,653	1,161,653
Income tax payable	477,585	—	477,585	362,041	—	362,041
Other liabilities	325,508	32,102	357,610	202,174	119,451	321,625
	₱734,792,997	₱43,422,058	₱778,215,055	₱632,744,021	₱35,047,992	₱667,792,013

*Accrued interest and other expenses include accrued interest payable and accrued other expenses payable (Note 19).



	Parent Company					
	2018			2017		
	Within Twelve Months	Over Twelve Months	Total	Within Twelve Months	Over Twelve Months	Total
Financial assets						
Cash and other cash items	₱13,705,304	₱—	₱13,705,304	₱11,160,173	₱—	₱11,160,173
Due from BSP	95,092,944	—	95,092,944	91,717,037	—	91,717,037
Due from other banks	7,837,894	—	7,837,894	14,066,620	—	14,066,620
SPURA	8,998,040	—	8,998,040	17,347,522	—	17,347,522
Financial assets at FVPL	5,366,903	1,322,894	6,689,796	12,633,520	3,423,303	16,056,823
AFS financial assets – gross	1,059,474	7,153,536	8,213,010	6,733,105	36,210,301	42,943,406
HTM financial assets	6,852,074	157,187,330	164,039,404	346,208	61,187,285	61,533,493
Loans and receivables – gross	144,064,744	303,001,501	447,066,245	136,176,920	255,754,257	391,931,177
Accrued interest receivable – gross	5,171,374	—	5,171,374	3,247,352	—	3,247,352
Other assets – gross	1,773,527	224,035	1,997,562	1,927,221	208,496	2,135,717
	289,922,279	468,889,296	758,811,575	295,355,678	356,783,642	652,139,320
Nonfinancial assets						
Bank premises, furniture, fixtures and equipment – net of accumulated depreciation and amortization	—	5,265,386	5,265,386	—	5,464,582	5,464,582
Investment properties – net of accumulated depreciation	—	2,309,762	2,309,762	—	2,756,921	2,756,921
Deferred tax assets	—	1,739,219	1,739,219	—	1,297,271	1,297,271
Investments in subsidiaries	—	14,333,567	14,333,567	—	13,560,733	13,560,733
Investment in associates	—	335,092	335,092	—	329,422	329,422
Intangible assets	—	915,531	915,531	—	800,861	800,861
Goodwill	—	222,841	222,841	—	222,841	222,841
Other assets – gross	1,056,495	756,160	1,812,655	895,082	991,386	1,886,468
	1,056,495	25,877,558	26,934,054	895,082	25,424,017	26,319,099
Allowances for impairment and credit losses (Note 16)			(7,284,317)			(6,921,550)
Unearned discounts (Note 10)			(208,377)			(267,099)
			(7,492,694)			(7,188,649)
			₱778,252,935			₱671,269,770
Financial liabilities						
Deposit liabilities	606,235,158	32,008,204	638,243,362	₱534,657,559	₱24,578,420	₱559,235,979
Bills payable	39,826,532	—	39,826,532	20,118,031	—	20,118,031
Manager's checks	2,069,812	—	2,069,812	1,709,248	—	1,709,248
Accrued interest and other expenses*	2,035,662	—	2,035,662	1,068,572	—	1,068,572
Derivative liabilities	455,150	—	455,150	267,533	—	267,533
Other liabilities	5,779,467	—	5,779,467	3,509,795	—	3,509,795
	656,401,780	32,008,204	688,409,985	561,330,738	24,578,420	585,909,158
Nonfinancial liabilities						
Accrued interest and other expenses	149,088	1,157,402	1,306,490	96,153	1,119,223	1,215,376
Income tax payable	414,233	—	414,233	339,155	—	339,155
Other liabilities	270,346	—	270,346	155,320	—	155,320
	₱657,235,448	₱33,165,606	₱690,401,055	₱561,921,366	₱25,697,643	₱587,619,009

*Accrued interest and other expenses include accrued interest payable and accrued other expenses payable (Note 19).

23. Equity

The Parent Company's capital stock consists of (amounts in thousands, except for number of shares):

	2018		2017	
	Shares	Amount	Shares	Amount
Common stock – ₱10.00 par value				
Authorized – shares	3,300,000,000		3,300,000,000	
Issued and outstanding				
Balance at beginning of year	2,684,771,716	₱26,847,717	2,002,027,836	₱20,020,278
Stock rights	—	—	483,870,967	4,838,710
Additional issuance of shares	1,128,096	11,281	—	—
Stock dividends*	—	—	198,872,913	1,988,729
	2,685,899,812	₱26,858,998	2,684,771,716	₱26,847,717

*The stock dividends declared include fractional shares equivalent to 1,009 and 1,060 in 2018 and 2017, respectively.



The Parent Company shares are listed in the Philippine Stock Exchange.

Stock Rights Offering

On February 22, 2017, the BOD authorized the Parent Company to conduct a rights issue by way of offering common shares to certain eligible shareholders. The BSP approved the stock rights offering on March 6, 2017.

Each eligible shareholder was entitled to one share, at ₱31.00 apiece, per 4.1375 existing common shares as of April 19, 2017. The stock rights offering yielded a subscription of 483,870,967 common shares which were listed at the Philippine Stock Exchange on May 10, 2017. The total proceeds of the stock rights offering amounted to ₱14.9 billion, net of stock issuance cost of ₱52.09 million which was deducted from additional paid in capital.

The additional capital enabled the Parent Company to grow its loan portfolio, expand its branch network, and support its other strategic business initiatives.

Increase in the Parent Company's Authorized Capital Stock

On March 15, 2017 and May 4, 2017 the BOD approved and the stockholders ratified, respectively, the increase in the Parent Company's authorized capital stock from ₱25.00 billion to ₱33.00 billion, or from 2.50 billion to 3.30 billion shares with par value of ₱10.00 per share. The increase in the Parent Company's authorized capital stock was subsequently approved by the BSP and the SEC on August 2, 2017 and September 29, 2017, respectively.

On June 7, 2017, the Parent Company and the Trust and Asset Management Group (on behalf of the CBC Employees Retirement Plan) entered into a subscription agreement whereas the latter will subscribe to 1,128,096 new common shares of the Parent Company at a subscription price per share equal to the higher between the closing price of the Parent Company's stock dividend or the par value of ₱10.00 per share.

On January 24, 2018, the BOD of the Parent Company, during a special board meeting, confirmed the issuance of the shares to CBC Employees Retirement Plan in accordance with the subscription agreement which was paid at a subscription price of ₱33.40 per share (closing price of the Group's shares at the Philippine Stock Exchange on October 20, 2018 which is the record date of the Parent Company's stock dividend).

The summarized information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares*
April 12, 1991	100,000
October 7, 1993	150,000
August 30, 1994	200,000
July 26, 1995	250,000
September 12, 1997	500,000
September 5, 2005	1,000,000
September 14, 2007	1,600,000
September 5, 2008	2,000,000
August 29, 2014	2,500,000
September 29, 2017	3,300,000

* Restated to show the effects of the ten-for-one stock split in 2012



As reported by the Parent Company's transfer agent, Stock Transfer Service, Inc., the total number of stockholders is 1,928 and 1,934 as of December 31, 2018 and 2017, respectively.

Dividends

Details of the Parent Company's cash dividend payments follow:

Cash Dividends

Date of Declaration	Date of Record	Date of Payment	Cash Dividend Per Share
May 03, 2018	May 17, 2018	June 01, 2018	0.83
May 04, 2017	May 18, 2017	June 02, 2017	0.80
May 05, 2016	May 23, 2016	June 03, 2016	1.00
May 07, 2015	August 12, 2015	September 09, 2015	1.00
May 08, 2014	September 19, 2014	October 15, 2014	1.00
May 02, 2013	July 19, 2013	August 14, 2013	1.20

Stock Dividends

Date of Declaration	Date of Record	Date of Payment	Stock Dividend Per Share
March 15, 2017	October 20, 2017	November 03, 2017	8%
May 05, 2016	May 23, 2016	June 03, 2016	8%
May 07, 2015	August 12, 2015	September 09, 2015	8%
May 08, 2014	September 19, 2014	October 15, 2014	8%
May 02, 2013	July 19, 2013	August 14, 2013	10%

Surplus

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

As of December 31, 2018 and 2017, surplus includes the amount of ₱1.28 billion, net of deferred tax liability of ₱547.40 million, representing transfer of revaluation increment on land which was carried at deemed cost when the Group transitioned to PFRS in 2005 (Note 12). This amount will be available to be declared as dividends upon sale of the underlying land.

In the consolidated financial statements, a portion of the Group's surplus corresponding to the net earnings of the subsidiaries and associates amounting to ₱1.64 billion and ₱851.57 million as of December 31, 2018 and 2017, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon declaration and receipt of cash dividends from the investees.

Reserves

In compliance with BSP regulations, 10.00% of the Parent Company's profit from trust business is appropriated to surplus reserve. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Parent Company's authorized capital stock.

Upon adoption of PFRS 9, BSP requires appropriation of a portion of the Group's Retained Earnings at an amount necessary to bring to at least 1% the allowance for credit losses on loans.



As of January 1, 2018 and December 31, 2018, the accumulated amount of appropriation to surplus reserves amounted to P2.43 billion and P2.75 billion, respectively. Appropriation for the year amounted to P312.82 million (Note 16).

Capital Management

The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes as of December 31, 2018 and 2017.

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 capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets (RWA), 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 but excluding insurance companies). Qualifying capital and RWA are computed based on BSP regulations. RWA consists of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On August 4, 2006, the BSP, under BSP Circular No. 538, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II capital adequacy framework. The BSP guidelines took effect on July 1, 2007. Thereafter, banks were required to compute their CAR using these guidelines.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard & Poor's, Moody's and Fitch, while PhilRatings were used on peso-denominated exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations, Corporates.

On January 15, 2013, the 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 took effect on January 1, 2014.

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 this ratio 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 upon the effectivity of Basel III. 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), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2016. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The CAR of the Group and the Parent Company as of December 31, 2018 as reported to the BSP are shown in the table below.

	Consolidated		Parent Company	
	2018	2017	2018	2017
	(Amounts in Million Pesos)			
CET 1 Capital	₱84,726	₱78,086	₱81,957	₱77,161
Less: Regulatory Adjustments	10,492	7,434	17,208	13,854
	74,234	70,652	64,749	63,307
Additional Tier 1 Capital		—	—	—
Less: Regulatory Adjustments		—	—	—
		—	—	—
Net Tier 1 Capital	74,234	70,652	64,749	63,307
Tier 2 Capital	5,659	3,970	4,982	3,410
Less: Regulatory Adjustments	—	—	—	—
Net Tier 2 Capital	5,659	3,970	4,982	3,410
Total Qualifying Capital	₱79,893	₱74,622	₱69,731	₱66,717

	Consolidated		Parent Company	
	2018	2017	2018	2017
	(Amounts in Million Pesos)			
Credit RWA	₱565,777	₱480,956	₱498,030	₱451,457
Market RWA	5,154	7,665	5,204	7,540
Operational RWA	39,470	36,047	31,877	28,526
Total RWA	₱610,401	₱524,668	₱535,110	₱487,523

CET 1 capital ratio	12.16%	13.47%	12.10%	14.02%
Tier 1 capital ratio	12.16%	13.47%	12.10%	14.02%
Total capital ratio	13.09%	14.22%	13.03%	14.78%

The Parent Company has complied with all externally imposed capital requirements throughout the period.

The issuance of BSP Circular No. 639 covering the ICAAP in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this circular, the Parent Company has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Parent Company. The level and structure of capital are assessed and determined in light of the Parent Company's business environment, plans, performance, risks and budget, as well as regulatory edicts. BSP requires submission of an ICAAP document every March 31. The Group has complied with this requirement.



24. Retirement Plan

The Group has separate funded noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. The retirement plans are administered by the Parent Company's Trust Group which acts as the trustee of the plans. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation studies of the retirement plans were made as of December 31, 2018.

The Group's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The amounts of net defined benefit asset in the balance sheets follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Net plan assets (Note 15)	₱777,827	₱995,050	₱756,159	₱991,386
Retirement liabilities (Note 20)	(8,686)	(119,451)	—	—
	₱769,141	₱875,599	₱756,159	₱991,386



The movements in the defined benefit asset, present value of defined benefit obligation and fair value of plan assets follow:

Consolidated											
2018											
Remeasurements in OCI											
	Net benefit cost			Benefits paid	Return on plan assets (excluding changes arising from amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from financial assumptions	Actuarial changes arising from demographic assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2018
	January 1, 2018	Current service cost	Net interest	Net pension expense*							
	(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)	(j) = g + h + i	(k)	(l) = a + b + e + f + j + k
Fair value of plan assets	4,868,423	—	272,914	272,914	(275,805)	(619,071)	—	—	(619,071)	612,788	4,859,249
Present value of defined benefit obligation	3,992,824	431,972	223,936	655,907	(275,805)	—	38,390	(321,209)	(282,819)		4,090,108
Net defined benefit asset	875,599	(431,972)	48,978	(382,994)	—	(619,071)	(38,390)	321,209	(336,251)	612,788	769,141

*Presented under Compensation and fringe benefits in the statements of income.

Consolidated											
2017											
Remeasurements in OCI											
	Net benefit cost			Benefits paid	Return on plan assets (excluding changes arising from amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from financial assumptions	Actuarial changes arising from demographic assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2017
	January 1, 2017	Current service cost	Net interest	Net pension expense*							
	(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)	(j) = g + h + i	(k)	(l) = a + b + e + f + j + k
Fair value of plan assets	₱4,521,109	₱—	₱217,203	₱217,203	(₱288,014)	(₱153,076)	₱—	₱—	₱— (₱153,076)	₱571,200	₱4,868,423
Present value of defined benefit obligation	3,911,041	375,598	188,654	564,252	(288,014)	—	48,675	(₱243,130)	₱— (194,455)	—	3,992,824
Net defined benefit asset	₱610,068	(₱375,598)	₱28,549	(₱347,049)	₱—	(₱153,076)	(₱48,675)	₱243,130	₱— ₱41,379	₱571,200	₱875,599

*Presented under Compensation and fringe benefits in the statements of income.



	Parent Company											
	2018											
	January 1, 2018	Net benefit cost			Benefits paid	Remeasurements in OCI					Contribution by employer	December 31, 2018
		Current service cost	Net interest	Net pension expense*		Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains (losses)			
(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)	(j) = g + h + i	(k)	(l) = a + b + e + f + j + k		
Fair value of plan assets	4,558,199	–	255,259	255,259	(235,193)	(590,629)	–	–	(590,629)	480,000	4,467,637	
Present value of defined benefit obligation	3,566,814	324,756	199,742	324,956	(235,193)	–	97,785	(245,646)	(147,861)	–	3,711,477	
Net defined benefit asset	991,386	(324,756)	55,518	(69,697)	–	(590,629)	97,785	245,646	(442,768)	480,000	756,160	

*Presented under Compensation and fringe benefits in the statements of income.

	Parent Company											
	2017											
	January 1, 2017	Net benefit cost			Benefits paid	Remeasurements in OCI					Contribution by employer	December 31, 2017
		Current service cost	Net interest	Net pension expense*		Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains (losses)			
(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)	(j) = g + h + i	(k)	(l) = a + b + e + f + j + k		
Fair value of plan assets	₱4,315,996	₱–	₱206,736	₱206,736	(₱273,001)	(₱141,532)	₱–	₱–	(₱141,532)	₱450,000	₱4,558,199	
Present value of defined benefit obligation	3,561,242	264,989	170,583	435,573	(273,001)	–	50,525	(207,525)	(157,000)	–	3,566,813	
Net defined benefit asset	₱754,754	(₱264,989)	₱36,153	(₱288,837)	–	(₱141,532)	(₱50,525)	₱207,525	₱15,468	₱450,000	₱991,386	

*Presented under Compensation and fringe benefits in the statements of income.



The Group and the Parent Company is recommended to contribute to its defined benefit pension plan in 2019 amounting to ₱614.33 million and ₱453.28 million.

In 2018 and 2017, the major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Parent Company shares (Note 29)	31.54%	36.30%	33.76%	38.75%
Equity instruments	23.83%	20.97%	21.76%	21.59%
Cash and cash equivalents	10.17%	9.94%	9.07%	7.54%
Debt instruments	19.39%	14.74%	19.39%	12.93%
Other assets	15.08%	18.05%	16.03%	19.19%
	100.00%	100.00%	100.00%	100.00%

The following table shows the breakdown of fair value of the plan assets:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Due from BSP	₱—	₱—	₱—	₱—
Deposits in banks	479,650	486,822	399,395	345,702
Financial assets at FVPL	868,381	993,381	839,145	967,053
AFS financial assets		—		—
Quoted debt securities	969,754	513,233	832,834	404,197
Quoted equity securities	46,101	33,652	15,023	23,121
Parent Company shares	1,487,360	1,777,250	1,487,360	1,777,250
Investments in unit investment trust fund	145,203	199,557	117,097	179,913
Corporate bonds	8,750	8,750	8,750	8,750
Loans and receivable	523,483	688,029	520,663	685,179
Investment properties*	162,323	143,799	162,323	143,799
Other assets	25,444	52,078	23,019	51,219
	₱4,716,449	₱4,896,551	₱4,405,609	₱4,586,183

* Investment properties comprise properties located in Manila.

The carrying value of the plan assets of the Group and Parent Company amounted to ₱4.7 billion and ₱4.90 billion, respectively, as of December 31, 2018, and ₱4.41 billion and ₱4.59 billion, respectively, as of December 31, 2017

The principal actuarial assumptions used in 2018 and 2017 in determining the retirement asset (liability) for the Group's and Parent Company's retirement plans are shown below:

	2018					
	Parent	CBSI	CIBI	CBC-PCCI	CBCC	CBSC
Discount rate:						
January 1	5.60%	5.63%	5.82%	5.82%	5.85%	5.85%
December 31	7.15%	7.27%	7.33%	7.33%	7.38%	7.4%
Salary increase rate	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
	2017					
	Parent	CBSI	CIBI	CBC-PCCI	CBCC	CBSC
Discount rate:						
January 1	4.79%	5.08%	5.14%	5.14%	5.19%	—
December 31	5.60%	5.63%	5.82%	5.82%	5.85%	5.85%
Salary increase rate	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%



The sensitivity analysis below has been determined based on the impact of reasonably possible changes of each significant assumption on the defined benefit liability as of the end of the reporting period, assuming all other assumptions were held constant:

December 31, 2018	Parent	CBSI	CIBI	CBC-PCCI	CBCC	CBSC
Discount rate						
(+1%)	(₱84,696)	(₱28,746)	(₱469)	(₱1,980)	(₱1,001)	(₱206)
(-1%)	133,008	37,942	608	2,504	1,260	272
Salary increase rate						
(+1%)	126,701	36,802	598	2,443	1,236	268
(-1%)	(83,078)	(28,456)	(470)	(1,969)	(1,002)	(207)
December 31, 2017	Parent	CBSI	CIBI	CBC-PCCI	CBCC	CBSC
Discount rate						
(+1%)	(₱176,120)	(₱39,471)	(₱1,138)	(₱6,434)	(₱1,157)	(₱218)
(-1%)	266,156	50,838	1,568	11,519	1,460	285
Salary increase rate						
(+1%)	250,898	48,520	1,504	11,019	1,414	272
(-1%)	(171,429)	(38,611)	(1,115)	(6,328)	(1,146)	(212)

The weighted average duration of the defined benefit obligation are presented below:

	December 31, 2018	December 31, 2017
Parent Company	13	13
CBSI	18	18
CIBI	19	19
CBC-PCCI	19	19
CBCC	23	22
CBSC	25	—

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

December 31, 2018	Parent	CBSI	CIBI	CBC-PCCI	CBCC	CBSC
1 year and less	₱1,020,830	₱9,552	₱1,578	₱538	₱—	₱—
More than 1 year						
to 5 years	1,112,345	81,367	1,306	17,652	—	—
More than 5 years						
to 10 years	2,349,644	210,666	10,410	36,531	5,015	—
More than 10 years						
to 15 years	2,537,302	715,066	5,796	54,937	—	—
More than 15 years						
to 20 years	4,117,126	972,734	—	141,549	103,091	3,741
More than 20 years	27,553,459	11,606,160	455,722	1,097,718	381,490	182,074



December 31, 2017	Parent	CBSI	CIBI	CBC-PCCI	CBCC	CBSC
1 year and less	₱927,473	₱12,666	₱—	₱17,059	₱—	₱—
More than 1 year to 5 years	935,382	70,067	1,571	8,957	—	2,038
More than 5 years to 10 years	2,183,572	178,995	16,915	47,035	5,212	665
More than 10 years to 15 years	2,452,767	635,724	8,790	60,509	13,184	—
More than 15 years to 20 years	3,614,035	1,034,331	—	151,035	103,356	1,751
More than 20 years	22,632,896	10,283,386	477,064	1,267,884	402,263	164,340

25. Derivative Financial Instruments

Occasionally, the Parent Company enters into forward exchange contracts as an accommodation to its clients. These derivatives are not designated as accounting hedges. The aggregate notional amounts of the outstanding buy US dollar currency forwards as of December 31, 2018 and 2017 amounted to US\$515.77 million and US\$228.48 million, respectively, while the sell US dollar forward contracts amounted to US\$313.38 million and US\$164.89 million, respectively. Weighted average buy US dollar forward rate as of December 31, 2018 is ₱53.52 and ₱51.13 in 2017, while the weighted average sell US dollar forward rates are ₱51.41 and ₱53.60, respectively.

The aggregate notional amounts of the outstanding buy Euro currency forwards as of December 31, 2018 and 2017 amounted to €127.10 million and €113 million, respectively. The weighted average buy Euro forward rates as of December 31, 2018 are ₱59.95 and ₱59.32 in December 31, 2017.

The aggregate notional amounts of the outstanding Futures as of December 31, 2018 and December 31, 2017 amounted to US\$5 million and nil, respectively.

The aggregate notional amounts of the outstanding IRS as of December 31, 2018 and 2017 amounted to ₱11.367 billion and ₱9.99 billion, respectively.

The aggregate notional amounts of the outstanding buy US Dollar NDF as of December 31, 2018 and 2017 amounted to US\$40.00 million and US\$5.00 million, respectively. The weighted average buy NDF rate as of December 31, 2018 is ₱52.93 and ₱49.85 in December.

As of December 31, 2018 and 2017, the fair values of derivatives follow:

	2018		2017	
	Derivative Asset	Derivative Liability	Derivative Asset	Derivative Liability
Currency forwards	₱339,190	₱362,689	₱294,873	₱235,787
IRS	58,390	90,530	28,963	31,746
Futures	—	1,931	—	—
Warrants	10,268	—	9,751	—
	₱407,848	₱455,150	₱333,587	₱267,533



Fair Value Changes of Derivatives

The net movements in fair value changes of derivative instruments are as follows:

	2018	2017
Balance at beginning of year	66,053	(P26,910)
Fair value changes during the year	(288,211)	132,805
Settled transactions	174,855	(39,841)
Balance at end of year	(47,302)	P66,054

The net movements in the value of the derivatives are presented in the statements of income under the following accounts:

	2018	2017	2016
Foreign exchange gain (loss)	(82,585)	P96,401	(P283,973)
Trading and securities gain (loss)* (Note 21)	(30,771)	(3,437)	23,510
	(113,356)	P92,964	(P260,463)

*Net movements in the value related to embedded credit derivatives and IRS.

26. Lease Contracts

The lease contracts are for periods ranging from one to 25 years from the dates of contracts and are renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%.

Annual rentals on these lease contracts included in 'Occupancy cost' in the statements of income in 2018, 2017 and 2016 amounted to P844.24 million, P782.30 million and P681.05 million, respectively, for the Group, and P541.24 million, P518.47 million and P450.53 million, respectively, for the Parent Company.

Future minimum rentals payable of the Group and the Parent Company under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Within one year	P557,275	P601,876	P543,366	P551,239
After one year but not more than five years	2,349,845	2,230,498	1,898,564	1,984,453
After five years	1,119,114	1,335,370	713,620	915,394
	P4,026,233	P4,167,744	P3,155,550	P3,451,086

The Group and the Parent Company have also entered into commercial property leases on its investment properties (Note 13).



Future minimum rentals receivable under noncancellable operating leases follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Within one year	₱10,906	₱26,521	₱9,068	₱19,913
After one year but not more than five years	19,688	19,246	13,202	1,042
After more than five years	15,466	7,810	–	–
	₱46,060	₱53,577	₱22,270	₱20,955

27. Income and Other Taxes

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. 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. 9337, An Act Amending National Internal Revenue Code, provides that RCIT rate shall be 30.00% while interest expense allowed as a deductible expense is reduced to 33.00% of interest income subject to final tax.

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

Effective in May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, 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% gross income tax.

Interest income on deposit placements with other FCDUs and OBUs is taxed at 7.50% (now 15% effective January 1, 2018), while all other income of the FCDU is subject to the 30.00% corporate tax.

Relevant Tax Updates

Republic Act 10963, The Tax Reform for Acceleration and Inclusion (TRAIN), is first package of the comprehensive tax reform program of the government. The bill was signed into law on December 19, 2017 and took effect on January 1, 2018, amending some provisions of the old Philippine tax system.

Except for resident foreign corporations, which is still subject to the existing rate of 7.5%, tax on interest income of foreign currency deposit was increased to 15% under TRAIN. Documentary stamp tax on bank checks, drafts, certificate of deposit not bearing interest, all debt instruments, bills of exchange, letters of credit, mortgages, deeds and others are now subjected to a higher rate.

RR 4-2011

On March 15, 2011, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 4-2011 which prescribed the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU and within RBU.



On April 6, 2015, the Bank and other member banks of the Bankers Association of the Philippines (BAP), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati (Makati Trial Court). Further, in Civil Case No. 15-287, the Bank and other BAP member banks assailed the validity of RR 4-2011 on the ground, among others, that (a) the RR violates the petitioner-banks substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribes method of allocation; and (e) it violates the equal protection clause of the Constitution.

On April 8, 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 25, 2015, Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 4-2011 against the Bank and other BAP member banks, including issuing Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, the Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Bank and other BAP member banks are concerned.

On May 25, 2018, the Makati Trial Court issued a decision annulling RR 4-2011 and making the Writ of Preliminary Injunction permanent.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of the Parent Company's net revenue.

The provision for income tax consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Current						
Final tax	₱908,756	₱677,450	₱498,750	₱836,560	₱607,136	₱458,011
RCIT	1,070,191	977,968	907,782	926,792	829,109	785,800
MCIT	46,051	—	—	—	—	—
	2,024,998	1,655,418	1,406,532	1,763,352	1,436,245	1,243,811
Deferred	246,424	(166,241)	(279,980)	495,882	206,239	(160,672)
	₱2,271,422	₱1,489,177	₱1,126,552	₱2,259,234	₱1,642,484	₱1,083,139

The details of net deferred tax assets (liabilities) follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Net deferred tax assets on:				
Allowance for impairment and credit losses	₱2,806,637	₱2,567,623	₱2,340,436	₱2,076,465
Revaluation Increment on land (Notes 11 and 22)	(547,405)	(547,405)	(547,405)	(547,405)
Fair value adjustments on asset foreclosure and dacion transactions – net of depreciated portion	346,238	(29,533)	25,437	(222)
Net defined benefit asset	(243,812)	(297,416)	(228,277)	(297,416)
Others	151,403	84,812	149,029	65,849
	₱2,514,889	₱1,778,080	₱1,739,219	₱1,297,271



	Consolidated	
	2018	2017
Net deferred tax liabilities on:		
Fair value adjustments on asset foreclosure and dacion transactions – net of depreciated portion	₱245,547	₱210,577
Fair value adjustments on net assets (liabilities) of PDB and Unity Bank	812,84)	805,515
Others	169,095	145,501
	₱1,229,316	₱1,161,653

The Group did not set up deferred tax assets on the following temporary differences as it believes that it is highly probable that these temporary differences will not be realized in the near foreseeable future:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Allowance for impairment and credit losses	₱2,809,469	₱2,306,353	₱163,062	₱–
Accrued compensated absences	–	171,431	–	65,384
NOLCO	329,959	–	–	–
Excess of MCIT over RCIT	46,122	–	–	–
Others	34,572	371,427	–	–
	₱3,220,122	₱2,849,211	₱163,062	₱65,384

As of December 31, 2018, details of the Subsidiary's NOLCO are as follows:

InceptionYear	Original Amount	Used Amount	Expired Amount	Remaining Balance	Expiry Year
2015	₱–	₱–	₱–	₱–	2015
2016	–	–	–	–	2016
2017	–	–	–	–	2017
2018	329,959	–	–	329,959	2018
	₱329,959	₱–	₱–	₱329,959	

As of December 31, 2018, details of the excess of MCIT over RCIT of the Subsidiary follow:

InceptionYear	Original Amount	Used Amount	Expired Amount	Remaining Balance	Expiry Year
2015	₱35,414	₱35,313	₱101	₱–	2016
2016	–	–	–	–	2017
2017	–	–	–	–	2018
2018	46,122	–	–	46,122	2019
	₱81,536	₱35,313	₱101	₱46,122	



The reconciliation of the statutory income tax to the provision for income tax follows:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Statutory income tax	₱3,116,258	₱2,703,632	₱2,276,256	₱3,110,883	₱2,746,937	₱2,262,431
Tax effects of						
FCDU income	(250,305)	(498,029)	(549,881)	(252,809)	(496,062)	(543,591)
Non-taxable income	(984,372)	(939,179)	(219,042)	(895,392)	(837,850)	(179,507)
Interest income subjected to final tax	(318,857)	(279,914)	(464,491)	(276,675)	(266,103)	(604,445)
Nondeductible expenses	827,904	771,915	243,937	676,253	612,065	146,205
Others	(119,204)	(269,248)	(160,227)	(103,027)	(116,503)	2,046
Provision for income tax	₱2,271,422	₱1,489,177	₱1,126,552	₱2,259,224	₱1,642,484	₱1,083,139

28. Trust Operations

Securities and other properties (other than deposits) held by the Parent Company in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying balance sheets since these are not assets of the Parent Company (Note 30).

In compliance with the requirements of current banking regulations relative to the Parent Company's trust functions : (a) government bonds included under HFT financial assets and AFS financial assets with total face value of ₱1.781 billion and ₱1.176 billion as of December 31, 2018 and 2017, respectively, are deposited with the BSP as security for the Parent Company's faithful compliance with its fiduciary obligations (Note 9); and (b) a certain percentage of the Parent Company's trust fee income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function equals 20.00% of the Parent Company's authorized capital stock.

29. 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,
- significant investors
- 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 normally made in the ordinary course of business and based on the terms and conditions discussed below.

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Group has business relationships with a number of its retirement plans pursuant to which it provides trust and management services to these plans. Income earned by the Group and Parent Company from such services amounted to ₱47.60 million and ₱44.38 million, respectively, in 2018, ₱42.89 million and ₱41.69 million, respectively, in 2017, and ₱44.35 million and ₱41.41 million, respectively, in 2016.



The Group's retirement funds may hold or trade the Parent Company's shares or securities. Significant transactions of the retirement fund, particularly with related parties, are approved by the Trust Investment Committee (TIC) of the Parent Company. The members of the TIC are directors and key management personnel of the Parent Company.

A summary of transactions with related party retirement plans follows:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Deposits in banks	₱560,672	₱486,822	₱399,395	₱345,702
AFS financial assets	1,479,097	1,777,250	1,479,097	1,777,250
Dividend income	45,301	47,751	45,301	47,751
Interest income	16,882	2,037	13,311	1,520
Total market value of shares	1,479,097	1,777,250	1,479,097	1,777,250
Number of shares held	54,579	51,571	54,579	51,571

In 2016, dividend income and interest income of the retirement plan from investments and placements in the Parent Company amounted to ₱44.21 million and ₱2.07 million, respectively, for the Group, and ₱44.21 million and ₱1.17 million, respectively, for the Parent Company.

AFS financial assets represent shares of stock of the Parent Company. Voting rights over the Parent Company's shares are exercised by an authorized trust officer.

Remunerations of Directors and other Key Management Personnel

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 ManCom to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Short-term employee benefits	₱533,995	₱482,345	₱380,394	₱441,361	₱408,311	₱315,284
Post-employment benefits	5,064	2,501	4,774	4,418	2,501	2,194
	₱539,059	₱484,846	₱385,168	₱445,778	₱410,812	₱317,478

Members of the BOD are entitled to a per diem of ₱500.00 for attendance at each meeting of the Board or of any committees and to four percent (4.00%) of the Parent Company's net earnings, with certain deductions in accordance with BSP regulation. Non-executive directors do not receive any performance-related compensation. Directors' remuneration covers all Parent Company's Board activities and membership of committees and subsidiary companies.

The Group also provides banking services to directors and other key management personnel and persons connected to them. These transactions are presented in the tables below.

Other Related Party Transactions

Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions. Transactions between the Group and its associated companies also qualify as related party transactions. Details of the Parent Company's subsidiaries and associate are disclosed in Notes 1 and 10.



Group

Related party transactions of the Group by category of related party are presented below.

December 31, 2018			
Category	Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans and receivables		₱6,766,500	Partially secured Loans with interest rate of 2 – 5.12% and maturity of two to seven years.
Issuances	₱86,125,000		
Repayments	(2,350,000)		
Deposit liabilities		374	These are checking accounts with annual average rate of 0.13%.
Deposits	2,532,609		
Withdrawals	(2,532,493)		
Associate			
Deposit liabilities		166,372	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	487,691		
Withdrawals	(399,123)		
Key Management Personnel			
Loans and receivables		488	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%; Secured; no impairment; with annual fixed interest rates ranging from 0% to 5.50%
Issuances	388		
Repayments	(39,213)		
Deposit liabilities		79,241	These are checking, savings and time deposits with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	406,225		
Withdrawals	(350,120)		
Other Related Parties			
Deposit liabilities		238,933	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	35,337,503		
Withdrawals	(35,165,054)		

December 31, 2017			
Category	Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans and receivables		₱6,682,725	Partially secured Loans with interest rate of 2 – 5.12% and maturity of two to seven years.
Issuances	₱5,624,213		
Repayments	(1,651,488)		
Deposit liabilities		257	These are checking accounts with annual average rate of 0.13%.
Deposits	3,164,475		
Withdrawals	(3,164,441)		
Associate			
Deposit liabilities		77,722	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	1,175,969		
Withdrawals	(1,386,319)		
Key Management Personnel			
Loans and receivables		39,312	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%; Secured; no impairment; with annual fixed interest rates ranging from 0% to 5.50%
Issuances	417		
Repayments	2,238		
Deposit liabilities		18,772	These are checking, savings and time deposits with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	279,554		
Withdrawals	(276,612)		
Other Related Parties			
Deposit liabilities		51,563	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	16,038,034		
Withdrawals	(16,008,489)		

Interest income earned and interest expense incurred from the above loans and deposit liabilities in 2018, 2017, and 2016 follow:

	Significant Investor			Associate		
	2018	2017	2016	2018	2017	2016
Interest income	₱42,601	₱169,706	₱138,944	₱—	₱—	₱—
Interest expense	3	61	12	168	1,849	1,513

	Key Management Personnel			Other Related Parties		
	2018	2017	2016	2018	2017	2016
Interest income	₱7,921	₱17,102	₱385	₱—	₱—	₱—
Interest expense	2,121	47	40	2,129	69	11



Related party transactions of the Group with significant investor, associate and other related parties pertain to transactions of the Parent Company with these related parties.

Parent Company

Related party transactions of the Parent Company by category of related party, except those already presented in the Group disclosures, are presented below.

December 31, 2018			
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Loans and receivables		₱6,766,500	These are secured loans with interest rate of 5.13% and maturity of four years; collateral includes shares of stocks with fair value of ₱28.44 billion
Issuances	₱86,125,000		
Repayments	(2,350,000)		
Deposit liabilities		374	These are checking accounts with annual average rate of 0.13%.
Deposits	2,532,609		
Withdrawals	(2,532,493)		
Subsidiaries			
Deposit liabilities		114,339	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	3,668,567		
Withdrawals	(3,587,029)		
Associate			
Deposit liabilities		₱166,291	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	₱487,691		
Withdrawals	(399,123)		
Key Management Personnel			
Loans and receivables		488	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%
Issuances	388		
Repayments	(39,213)		
Deposit liabilities		14,569	These are savings account with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	365,236		
Withdrawals	(369,439)		
Other Related Parties			
Deposit liabilities		113,937	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	35,229,849		
Withdrawals	(35,167,475)		
December 31, 2017			
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Loans and receivables		₱6,682,725	These are secured loans with interest rate of 5.13% and maturity of four years; collateral includes shares of stocks with fair value of ₱28.44 billion
Issuances	₱5,624,213		
Repayments	(1,651,488)		
Deposit liabilities		257	These are checking accounts with annual average rate of 0.13%.
Deposits	3,164,475		
Withdrawals	(3,164,441)		
Subsidiaries			
Deposit liabilities		32,801	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	330,111		
Withdrawals	(311,528)		
December 31, 2017			
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Associate			
Deposit liabilities		₱77,722	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	₱1,175,969		
Withdrawals	(1,386,319)		
Key Management Personnel			
Loans and receivables		952	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%
Issuances	417		
Repayments	(714)		
Deposit liabilities		18,772	These are savings account with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	279,554		
Withdrawals	(276,612)		
Other Related Parties			
Deposit liabilities		51,563	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	16,038,034		
Withdrawals	(16,008,489)		

In 2017, the Parent Company sold its investment property to a related party for a total cash selling price of ₱161.58 million and recognized gain of ₱142.61 million.

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2018, 2017 and 2016 in relation to amounts due from related parties.



Interest income earned and interest expense incurred from the above loans and deposit liabilities in 2018, 2017 and 2016 follow:

	Subsidiaries			Associate		
	2018	2017	2016	2018	2017	2016
Interest expense	₱375	₱46	₱33	₱168	₱1,849	₱1,513

	Key Management Personnel			Other Related Parties		
	2018	2017	2016	2018	2017	2016
Interest income	₱11,277	₱46	₱56	₱-	₱-	₱-
Interest expense	19	47	40	131	69	11

	Significant Investor		
	2018	2017	2016
Interest income	₱42,601	₱169,706	₱138,944
Interest expense	3	61	12

Outright purchases and outright sale of debt securities of the Parent Company with its subsidiaries in 2018 and 2017 follow:

	Subsidiaries	
	2018	2017
Peso-denominated		
Outright purchase	₱817,030	₱675,016
Outright sale	4,246,628	18,902,488
Dollar – denominated (equity)		
Outright purchase	5,117	-
Outright sale	41,400	-

The following table shows the amount and outstanding balance of other related party transactions included in the financial statements:

	Subsidiaries			
	2018	2017	Nature, Terms and Conditions	
Balance Sheet				
Accounts receivable	₱1,242	₱2,741	This pertains to various expenses advanced by CBC in behalf of CBSI	
Security deposits	2,270	2,736	This pertains to the rental deposits with CBSI for office space leased out to the Parent Company	
Accounts payable	4,858	10,607	This pertains to various unpaid rental to CBSI	
	Subsidiaries			
	2018	2017	2016	Nature, Terms and Conditions
Income Statement				
Miscellaneous income	₱1,800	₱1,800	₱1,800	Human resources functions provided by the Parent Company to its subsidiaries (except CBC Forex and Unity Bank) such as recruitment and placement, training and development, salary and benefits development, systems and research, and employee benefits. Under the agreement between the Parent Company and its subsidiaries, the subsidiaries shall pay the Parent Company an annual fee
Occupancy cost	19,937	24,532	22,255	Certain units of the condominium owned by CBSI are being leased to the Parent Company for a term of five years, with no escalation clause
Miscellaneous expense	204,749	193,651	169,658	This pertains to the computer and general banking services provided by CBC–PCCI to the Parent Company to support its reporting requirements



Regulatory Reporting

As required by the BSP, the Group discloses loan transactions with its and affiliates and investees and with certain directors, officers, stockholders and related interests (DOSRI). Under existing banking regulations, the limit on the amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the regulatory capital or 15.00% of the total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

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	
	2018	2017	2018	2017
Total outstanding DOSRI loans	₱10,273,436	₱11,507,281	₱10,268,296	₱11,500,850
Percent of DOSRI loans granted under regulations existing prior to BSP Circular No. 423	—	—	—	—
Percent of DOSRI loans granted under BSP Circular No. 423	—	—	—	—
Percent of DOSRI loans to total loans	2.00%	2.54%	2.30%	2.95%
Percent of unsecured DOSRI loans to total DOSRI loans	1.78%	1.52%	1.77%	1.51%
Percent past due DOSRI loans to total DOSRI loans	—	—	—	—
Percent of non-performing DOSRI loans to total DOSRI loans	—	—	—	—

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.

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.

30. Commitments and Contingent Assets and 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. Management does not anticipate any material losses as a result of these transactions.



The following is a summary of contingencies and commitments of the Group and the Parent Company with the equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Trust department accounts (Note 28)	₱133,806,226	₱131,813,251	₱133,806,226	₱131,577,983
Committed credit lines	122,804,833	152,806,666	122,280,671	150,471,220
Unused commercial letters of credit (Note 29)	20,978,009	21,596,174	20,829,020	21,383,196
Foreign exchange bought	37,359,690	18,736,175	37,359,690	18,736,175
Foreign exchange sold	24,678,551	15,179,964	24,678,551	15,179,964
Credit card lines	12,568,703	10,359,997	12,568,703	10,359,997
IRS receivable	11,366,980	9,991,390	11,366,980	9,991,390
Outstanding guarantees issued	944,262	3,079,993	420,100	744,547
Inward bills for collection	2,563,604	2,386,848	2,563,604	2,386,848
Standby credit commitment	3,149,787	2,274,398	3,149,787	2,274,398
Spot exchange sold	3,624,709	1,399,180	3,624,709	1,399,180
Spot exchange bought	3,247,995	996,333	3,247,995	996,333
Deficiency claims receivable	287,647	291,831	287,647	219,831
Late deposits/payments received	495,347	127,832	458,675	116,313
Outward bills for collection	55,135	93,772	53,211	91,943
Others	1,846	1,614	1,694	1,354

There are several suits, assessments or notices and claims that remain contested. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such suits, assessments and claims will not have a material effect on the Group's and the Parent Bank's financial position and results of operations.

31. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the markets served, with each segment representing a strategic business unit.

The Group's business segments are as follows:

- Lending Business – principally handles all the lending, trade finance and corollary banking products and services offered to corporate and institutional customers as well as selected middle market clients. It also handles home loans, contract-to-sell receivables, auto loans and credit cards for individual and/or corporate customers. Aside from the lending business, it also provides cash management services and remittance transactions;
- Retail Banking Business – principally handles retail and commercial loans, individual and corporate deposits, overdrafts and funds transfer facilities, trade facilities and all other services for retail customers;
- Financial Markets – principally provides money market, trading and treasury services, manages the Group's funding operations by the use of government securities, placements and acceptances with other banks as well as offers advisory and capital-raising services to corporate clients and wealth management services to high-net-worth customers; and
- Others – handles other services including but not limited to trust and investment management services, asset management, insurance brokerage, credit management, thrift banking business, operations and financial control, and other support services.



The Group's businesses are organized to cater to the banking needs of market segments, facilitate customer engagement, ensure timely delivery of products and services as well as achieve cost efficiency and economies of scale. Accordingly, the corresponding segment information for all periods presented herein are restated to reflect such change.

The Group reports its primary segment information to the Chief Operating Decision Maker (CODM) on the basis of the above-mentioned segments. The CODM of the Group is the President.

Segment assets are those operating assets that are employed by a segment in its operating activities that 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 that either are 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 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.

Other operating income mainly consists of trading and securities gain (loss) – net, service charges, fees and commissions, trust fee income and foreign exchange gain – net. Other operating expense mainly consists of compensation and fringe benefits, provision for impairment and credit losses, taxes and licenses, occupancy, depreciation and amortization, stationery, supplies and postage and insurance. Other operating income and expense are allocated between segments based on equitable sharing arrangements.

The Group has no significant customers which contributes 10.00% or more of the consolidated revenues.

The Group's asset producing revenues are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented.



The following tables present relevant financial information regarding business segments measured in accordance with PFRS as of and for the years ended December 31, 2018, 2017 and 2016:

	Lending Business			Retail Banking Business		
	2018	2017	2016	2018	2017	2016
Results of Operations						
Net interest income						
Third party	₱19,034,015	₱13,876,995	₱11,234,520	(₱871,505)	₱855,933	₱477,635
Intersegment	(12,956,205)	(8,438,704)	(6,185,045)	11,763,393	7,915,744	7,067,165
	6,077,810	5,438,291	5,049,475	10,891,888	8,771,677	7,544,800
Other operating income	1,794,959	1,317,298	907,182	1,619,591	1,465,962	1,234,356
Total revenue	7,872,769	6,755,589	5,956,657	12,511,479	10,237,639	8,779,156
Other operating expense	(1,559,750)	(2,294,490)	(2,228,638)	(7,138,661)	(6,536,859)	(5,759,880)
Income before income tax	6,313,019	4,461,099	3,728,019	5,372,818	3,700,780	3,019,276
	210,176	236,856	96,461	—	—	(6,833)
Provision for income tax						
Net income	₱6,523,195	₱4,697,955	₱3,824,480	₱5,372,818	₱3,700,780	₱3,012,443
Total assets	₱376,187,705	₱299,052,197	₱251,890,331	₱471,540,704	₱431,622,883	₱361,036,278
Total liabilities	4,819,787	1,171,742	2,233,433	499,955,967	444,030,414	₱365,417,688
Depreciation and amortization	73,475	61,988	51,266	437,201	378,597	₱313,745
Provision for impairment and credit losses	₱(328,404)	₱668,360	₱916,974	₱103,780	₱238,645	₱126,025
Capital expenditures	₱66,105	₱63,136	₱451,770	₱148,179	₱118,378	₱647,525

	Financial Markets			Other Business and Support Units		
	2018	2017	2016	2018	2017	2016
Results of Operations						
Net interest income						
Third party	₱4,028,486	₱1,661,494	₱2,039,741	₱735,189	₱3,231,982	₱2,942,296
Intersegment	(434,176)	1,124,033	(424,779)	1,626,988	(601,073)	(457,341)
	3,594,310	2,785,527	1,614,962	2,362,177	2,630,909	2,484,955
Other operating income	522,523	879,737	1,386,223	1,721,223	2,438,697	1,566,985
Total revenue	4,116,833	3,665,264	3,001,185	4,083,401	5,069,606	4,051,943
Other operating expense	(916,021)	(1,264,773)	(959,151)	(8,582,525)	(6,619,869)	(5,253,750)
Income before income tax	3,200,812	2,400,491	2,042,034	(4,499,124)	(1,550,263)	(1,201,807)
Provision for income tax	(730,643)	(547,624)	(388,807)	(1,750,956)	(1,178,409)	(827,373)
Net income	₱2,470,169	₱1,852,867	1,653,227	₱(6,250,080)	₱(2,728,672)	₱(2,029,180)
Total assets	₱170,463,397	₱168,052,729	₱128,281,917	(₱152,120,165)	(₱147,280,299)	(₱108,010,515)
Total liabilities	₱88,040,610	₱140,321,883	₱124,409,814	₱185,398,690	₱82,267,974	₱77,750,872
Depreciation and amortization	₱49,433	₱41,852	₱30,449	₱737,576	₱735,052	₱729,326
Provision for impairment and credit losses	₱51,689	₱—	₱—	₱314,011	(₱152,834)	(₱192,453)
Capital expenditures	₱60,838	₱63,795	₱230,076	₱299,388	₱389,402	(₱193,719)

	Total		
	2018	2017	2016
Results of Operations			
Net interest income			
Third party	₱22,926,186	₱19,626,404	₱16,694,192
Intersegment	—	—	—
	22,926,186	19,626,404	16,694,192
Other operating income	5,658,296	6,101,694	5,094,746
Total revenue	28,584,482	25,728,098	21,788,941
Other operating expense	(18,196,956)	(16,715,991)	(14,201,419)
Income before income tax	10,387,526	9,012,107	7,587,522
Provision for income tax	(2,271,422)	(1,489,177)	(1,126,552)
Net income	₱8,116,104	₱7,522,930	₱6,460,970
Total assets	₱866,071,642	₱751,447,510	₱633,198,011
Total liabilities	₱778,215,053	₱667,792,013	₱569,811,807
Depreciation and amortization	₱1,297,685	₱1,217,489	₱1,124,786
Provision for impairment and credit losses	₱141,076	₱754,171	₱850,546
Capital expenditures	₱574,510	₱634,711	₱1,135,652



The Group's share in net income (loss) of an associate included in other operating income amounting to ₱101.01 million, ₱73.13 million and (₱89.38 million) in 2018, 2017 and 2016, respectively are reported under 'Other Business and Support Units'.

32. Earnings Per Share

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for stock dividends).

The following reflects the income and share data used in the basic earnings per share computations:

	2018	2017	2016
a. Net income attributable to equity holders of the parent	₱8,110,379	₱7,513,972	₱6,458,296
b. Weighted average number of common shares outstanding (Note 23)	2,685,826	2,581,182	2,243,086
c. EPS (a/b)	₱3.02	₱2.91	₱2.88

As of December 31, 2018, 2017 and 2016, there were no outstanding dilutive potential common shares.

33. Financial Performance

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

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Return on average equity	9.54%	10.01%	10.42%	9.54%	10.01%	10.32%
Return on average assets	1.04%	1.12%	1.16%	1.17%	1.27%	1.33%
Net interest margin	3.10%	3.11%	3.20%	2.97%	2.91%	3.03%

34. Supplementary Information for Cash Flow Analysis

The following is a summary of certain non-cash investing activities that relate to the analysis of the statements of cash flows:

	Consolidated		
	2018	2017	2016
Addition to investment properties from settlement of loans	₱523,343	₱579,089	₱784,415
Fair value gain in AFS financial assets	(451,786)	158,946	405,722
Cumulative translation adjustment	(52,900)	(15,970)	(3,637)
Addition to chattel mortgage from settlement of loans	626,182	559,283	334,553



	Parent Company		
	2018	2017	2016
Addition to investment properties from settlement of loans	₱240,680	₱126,652	₱296,844
Fair value gain in AFS financial assets	(381,791)	113,020	405,722
Cumulative translation adjustment	(58,792)	(16,197)	(3,637)
Addition to chattel mortgage from settlement of loans	20,135	10,824	19,088

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

	2018	2017
Balance at beginning of year	₱20,118,031	₱16,954,998
Cash flows during the year		
Proceeds	184,568,424	252,268,556
Settlement	(171,215,735)	13,352,688 (249,219,839)
Non-cash changes		
Foreign exchange movement	4,132,800	71,613
Amortization of transaction cost	2,223,012	6,355,812 42,703
Balance at end of year	₱39,826,532	₱20,118,031

35. 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 under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table.

December 31, 2018						
Financial instruments 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]	Effects 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]
Financial assets						
SPURA	₱7,000,000		₱7,000,000	₱7,000,000	₱7,000,000	₱0
Currency forwards	129,322		129,322	33,933		95,389
IRS	28,198		28,198	3,481		24,717
	₱7,157,525		₱7,157,525	₱7,037,414	₱7,000,000	₱120,105
Financial liabilities						
Bills payable	₱27,372,201		₱27,372,201	₱34,689,129	₱32,547,479	₱0
Currency forwards	52,249		52,249	33,933		18,316
IRS	20,963		20,963	4,481		17,481
	₱27,448,413		₱27,448,413	₱34,726,543	₱32,547,479	₱35,798



December 31, 2017						
Financial instruments 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]	Effects of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Financial instruments	Fair value of financial collateral	Net exposure [c-d]
[a]	[b]	[c]	[d]	[e]		
Financial assets						
SPURA	₱18,751,845		₱18,751,845	₱18,751,845	₱18,749,98	₱1,865
Currency forwards	117,562	₱	117,562	32,748	—	84,814
IRS	28,963	—	28,963	₱8,361	—	20,602
	₱146,525	—	₱146,525	₱41,109	—	₱105,416
Financial liabilities						
Bills payable	₱14,306,179					
Currency forwards	62,555	₱—	₱14,306,179	₱17,984,923	₱17,453,765	₱—
IRS	31,745	—	62,555	32,748	—	29,807
	31,745	—	31,745	8,361	—	23,384

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.

36. Approval of the Financial Statements

The accompanying consolidated and parent company financial statements were authorized for issue by the Parent Company's BOD on March 1, 2019.

37. Supplementary Information Required Under RR No. 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the details of percentage and other taxes paid or accrued by the Parent Company in 2018.

Gross receipts tax	₱1,195,417
Documentary stamps tax	1,019,554
Local taxes	67,618
Fringe benefit tax	11,227
Others	14,131
Balance at end of year	₱2,307,948

Withholding Taxes

Details of total remittances of withholding taxes in 2018 and amounts outstanding as of December 31, 2018 are as follows:

	Total remittances	Amounts outstanding
Final withholding taxes	₱1,701,246	₱235,888
Withholding taxes on compensation and benefits	494,956	29,057
Expanded withholding taxes	134,058	9,050
	₱2,330,259	₱273,994

