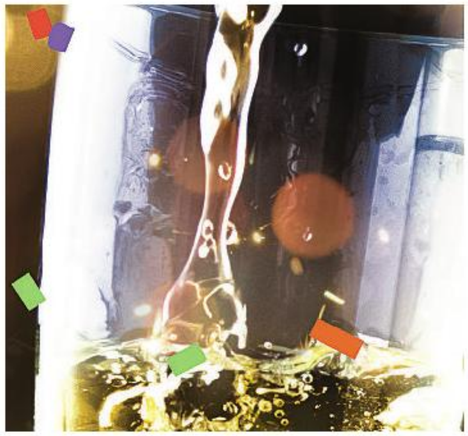



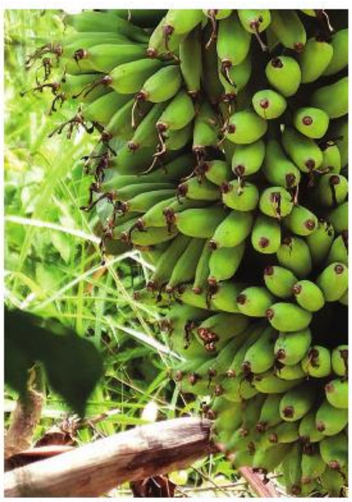
PHILIPPINE BUSINESSBANK
a savings bank

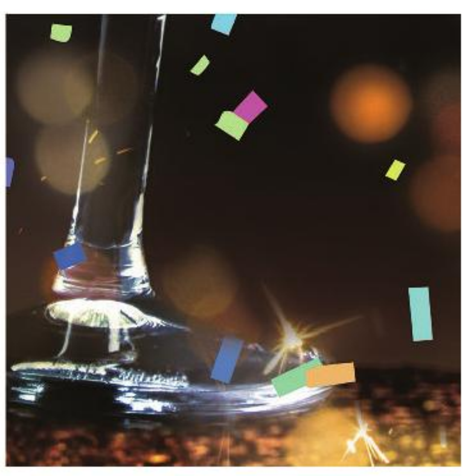
PBB

20 Years
1997 • 2017

OF CREATING BUSINESS VALUE

ANNUAL 2017 REPORT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OUR MISSION

THE BASIS FOR PHILIPPINE BUSINESS BANK'S GROWTH SHALL BE ITS COMMITMENT FOR HIGHER STANDARDS EVERY DAY, IN EVERYTHING WE DO IN PROVIDING COMPETITIVE PRODUCTS AND SERVICES AND THROUGH ENTHUSIASTIC EXECUTION AND TEAMWORK IN PRODUCING SATISFACTION – FOR OUR CUSTOMERS, OUR SHAREHOLDERS, OUR ASSOCIATES, AND OUR COMMUNITIES.

OUR VISION

BY MAKING THINGS HAPPEN TODAY, PBB WILL HELP BUILD STRONG BUSINESS COMMUNITIES WHERE PEOPLE CAN ACHIEVE THEIR DREAMS.

CORPORATE POLICY

OVERVIEW

PBB was incorporated as a Philippine corporation and registered with the SEC on January 28, 1997 as “Total Savings Bank” and was granted the authority to operate as a thrift bank under the MB Resolution No. 29 dated January 8, 1997. The BSP issued a Certificate of Authority on February 6, 1997. On December 16, 1997, the SEC approved the change of corporate name of the Bank to “Philippine Business Bank (A Savings Bank)” which the shareholders believe better reflects the Bank’s business thrust and focus.

The Bank’s focus is to become the bank of choice of the SME market segment. The BSP defines small and medium enterprises to be any business concern with assets between ₱3 million to ₱100 million, excluding the land value on which the entity’s office, plant and equipment are situated.

This focus on the SME market is driven by the size and potential of this particular market. According to a recent data from the Department of Trade and Industry, SMEs account for 99.6 percent of total registered enterprises. The Bank believes that the SME segment is the major source of entrepreneurship and economic dynamism which provide trade, manufacturing and outsourcing and services and help contribute to community and local development. Lastly, the Bank believes that the SME segment is underserved with most financial institutions focusing on the banking requirements of large corporations.

To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centres of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank’s network grew from two (2) branches in 1997 to 142 branches as of December 31, 2017 with most branches located in areas with high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City. PBB has also aggressively expanded its branch network in highly urbanized areas outside the Mega Manila such as Davao, General Santos, Bacolod, and Cebu. PBB believes that client proximity, understanding its targets’ banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are the key growth factors in the banking business.

PBB attributes its strong growth and attractive financial performance to the following competitive strengths:

1. **Strong presence, reputation, and attention to its SME customers**

The Bank believes that its deliberate focus on serving the banking needs of the SME market segment is a key factor for its successful growth over its history. Aside from potential size of this market segment, the Bank also believes that the SME segment is largely underserved by most financial institutions with their focus on large companies and the consumer market.

PBB’s focus on the SME segment is manifested in its branch strategy, the recruitment of its officers, its business operations and even its corporate culture.

Majority of PBB’s branches are located outside of typical commercial and business districts where most banks congregate and are situated in areas with significant SME concentration such as Caloocan, Malabon, Navotas, Valenzuela, Quezon City as well as highly urbanized areas outside the Mega Manila such as Davao, General Santos, Bacolod, and Cebu. Aside from targeting such areas, PBB has also significantly increased the number of its branches over the past years.

The Bank believes the success of this branch strategy is shown in its increased business volume. PBB’s branches have increased over the past four (4) years from 100 in 2013 to 142 as of December 31, 2017. As a result, PBB’s deposit base grew from ₱37.9 billion in 2013 to ₱73.5 billion in 2017. Loan portfolio also increased from ₱31.6 billion in 2013 to ₱70.6 billion as of December 31, 2017, up 2.2 times.

Of equal importance to PBB’s current and prospective growth is the staffing of these branches. The Bank aggressively recruits branch managers and account officers who have established good relationships and solid reputation within each branch’s catchment area. Through this recruitment strategy, PBB has been able to accelerate its client acquisition.

In line with its view that most SME clients have unique banking requirements with respect to bank transactions that require specific attention, PBB has also deliberately focused on providing its banking services through its branch officers and staff. This contrasts significantly with the trend to automate banking transactions. PBB believes that customer interaction and service will remain key ingredients for its growth.

2. **Effective capital utilization**

Aside from interest income from its loan products, PBB is focused on earnings generation from its treasury operations. PBB’s treasury operations, aside from ensuring liquidity and managing liquidity risk, remains actively involved in the trading of domestic treasury debt, corporate bonds, foreign currency denominated bonds and other financial instruments and is expected to generate income especially during periods of weak loan demand or excess liquidity arising from branch deposit taking efforts.

In 2013, PBB’s trading portfolio amounted to ₱8.8 billion, ₱7.9 billion in 2014, ₱9.1 billion in 2015, and ₱7.1 billion in 2016. As of December 31, 2017, the AFS holdings of the Bank was at ₱2.4 billion.

3. **Solid lending policies and practices**

Despite the growth of PBB’s loans and receivables, the Bank has successfully managed credit risk through its internal credit risk rating system, loan evaluation and approval practices, and other formal credit risk mitigating processes. Supplementing these formal processes is PBB’s relationship and community based approach to lending, which takes advantage of branch and account officers’ position in their respective communities to analyze prospective borrowers’ reputation, business performance and risks, and other credit evaluation factors.

The Bank believes that the advantages brought about by these processes have equal weight to its formal credit evaluation efforts, especially for prospective SME clients.

Over the past three (3) years, PBB’s NPL ratio was at 2.88% in 2015, 2.54% in 2016, and 2.18% in 2017.

4. **Sound balance sheet well positioned for growth**

PBB has consistently maintained a sound balance sheet which positions the Bank for future growth. Liquidity, as measured by the ratio of loans to deposit, in 2014, 2015, 2016, and 2017 was at 86.0%, 75.9%, 87.3%, and 96.0%, respectively.

5. **Strong base capital is the foundation to PBB’s increasing size**

PBB’s Total CAR and Tier 1 CAR was at 17.7% and 17.0%, 17.0% and 16.2%, and 14.0% and 13.1% for the years ending December 2015, 2016, and 2017, respectively.

The Bank’s capital for the years ended 2015, 2016, and 2017 was at ₱8.5 billion, ₱9.6 billion, and ₱10.2 billion, respectively.

6. **Highly competent and experienced management team**

PBB is managed and run by officers who have extensive experience in banking operations from leading universal and commercial banks in the country. With the experience and track record of officers, from the head office and throughout its branch network, the Bank is assured that it possesses extensive knowledge of all aspects of the banking industry, strong relationships with other banks and financial institutions, and familiarity with the Bank’s target clients and their banking needs.

PRINCIPAL BUSINESS ACTIVITIES

PBB provides close to a full range of banking services and products, including cash management, retail and corporate lending, deposit products, international trade finance, treasury and trust products.

ABOUT US

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To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centers of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank's network grew from two (2) branches in 1997 to 139 branches as of December 31, 2016 with most branches located in areas with high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City. PBB has also aggressively expanded its branch network in highly urbanized areas outside the Mega Manila such as Davao, General Santos, Bacolod, and Cebu. PBB believes that client proximity, understanding its targets' banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are the key growth factors in the banking business.

FINANCIAL HIGHLIGHTS

TOTAL RESOURCES
(in billion pesos)

2017	87.264
2016	70.266
2015	65.582

NET INCOME
(in million pesos)

2017	640.086
2016	668.624
2015	502.142

DEPOSIT LIABILITIES
(in billion pesos)

2017	73.522
2016	58.908
2015	55.016

CAPITAL FUND
(in billion pesos)

2017	10.226
2016	9.57
2015	8.47

TOTAL LOANS
(in billion pesos)

2017	70.553
2016	51.437
2015	41.738

MILESTONES

2007

- PBB increased its authorized capital stock to **Php 1BILLION**

24 BRANCHES

2008

- Acquired **KABALIKAT RURAL BANK;**
- Integrated its ATM operations
- **NEW LOGO**

PBB PHILIPPINE BUSINESSBANK a savings bank

2009

48 BRANCHES

2010

BancNet

- **PBB partners with Bancnet**
- Established foreign correspondent bank network
- PBB joins the **Society for Worldwide Interbank Financial Transfers (S.W.I.F.T)**
- PBB became the first savings bank to offer trade finance

2011


PBB MADE IT TO THE TOP 40 AT THE FIIA 2011

FIIA Financial Insights Innovation Award

- PBB made it to the Top 40 at the **Asian Financial Services Congress' Financial Insights Innovation Awards (FIIA)** 2011

65 BRANCHES

2012


PBB CITED BY INTERNATIONAL DATA CORPORATION FOR THE 2ND TIME

- PBB cited by the International Data Corporation for the 2nd time

78 BRANCHES

2013

100 BRANCHES

- PBB made a public offering and listed shares on the **Phil Stock Exchange**
- **The Philippines Domestic Technology and Operations Bank of the Year Award** was given by the Asian Banking and Finance during the wholesale Banking Awards held at the Marina Bay Sands in Singapore

2014

- PBB acquired Rural Bank of Kawit
- **The Philippines Domestic Technology and Operations Bank of the Year Award** - was given by the Asian Banking and Finance during the wholesale Banking Awards held at the Marina Bay Sands in Singapore
- PBB's technology Strategy for Future Proofing its Enterprise Data Center was cited among the FIIA Top 30 Technology Initiatives to look out for at the IDC Asian Financial Services Congress 2014
- Best Banking Technology Awards 2014

116 BRANCHES

2015

- PBB entered into an agreement with Bank of China Manila Branch and is in participation of the Renminbi Transfer System (RTS)
- **PBB acquired Insular Savers Bank & Bataan Savings and Loan Association**
  - Best Cloud Based Programme and the only bank from the Philippines to be one of the winners in the Asian Banker Technology Implementation Awards 2015

2016


PBB FIRST SAVINGS BANK ALLOWED TO OFFER TYPE 2 DERIVATIVES

- PBB is the first savings Bank allowed to offer type 2 (derivatives) limited dealer authority for foreign exchange forwards
- First Savings Bank to issue a Type 3 Limited user authority

MESSAGE FROM THE CHAIRMAN EMERITUS

Dear Shareholders:

In February 2017, we celebrate 20 years of Philippine Business Bank. From a solitary Caloocan branch in 1997 to 142 branches today, we reflect on how fast time flies, especially with the hard work and sacrifices we have had to make to reach our goals.

I would like to express my gratitude to all of you who have trusted us through the years. PBB will not be where it is today without your continued support to the Bank. We look forward to more years of continued partnership as we go hand in hand in growing PBB.

Banks perform a fundamental role in the community. People entrust us with their savings and it is our fiduciary duty to lend out these money prudently.

We continue to focus on the small and medium enterprises or SMEs. SMEs provide millions of jobs and contribute significantly to the economic development of the Philippines. While other financial services providers consider SMEs peripheral to their businesses, at PBB, the SMEs are at the heart of what we do. They are not just a "business segment" or "customer cross-section" – they are our partners.

This is why at Philippine Business Bank, we take pride in building meaningful relationships with our clients. By setting up branches in different cities and municipalities all over the country, we provide our clients the means to fulfill their financial obligations. In this way, we play a crucial role in nation-building and financial inclusion. This is the most compelling reason why I believe in the business of banking: sound, robust, and profitable financial services underpin the economic development of our communities and our people.

As I end this letter, allow me to thank our clients for their continued loyalty to the Bank. They are who I have in mind when I think of whom and what PBB exists for.

AMB. ALFREDO M. YAO
Chairman Emeritus

MESSAGE FROM THE CHAIRMAN

Dear Shareholders:

I would like to thank all of our clients who supported the Bank over the past 12 months and over our 20-year history. As a listed stand-alone savings bank, the results we have achieved would not be possible without your support.

We seek to align our responsible approach to banking with your expectations, act responsibly towards the environment and provide access to banking for people who may otherwise be financially excluded.

Despite the challenging market conditions, we have performed strongly against financial, social and environmental goals.

PBB reached Php87.3 billion in assets and delivering a profit of Php640.1 million with growing customer owned reserves to Php73.5 billion. These funds are collectively owned by our customers and the profit is reinvested into the bank to provide competitive products, quality service, fairer fees and better interest rates. We also reported a net interest income growth of 22.9% to Php3.0 billion from Php2.5 billion of the previous year. Core income reached Php1,034.8 million as of year-end 2017 from 2016's Php696.1 million, a 48.6% or a Php338.6 million increase. The Bank's pre-tax pre-provision profit increased by 13.8% to Php1,173.9 million in 2017 against the Php1,031.5 million PTPP in 2016.

Importantly, we achieved these results by growing our business and managing costs without lowering the level of service and benefits we deliver to our clients.

We face the year ahead with great optimism, recognizing that it will be challenging as President Duterte signed before the end of 2017 the first package of tax reform, which will raise duties on fuel, sugar-sweetened drinks and cars to offset a reduction in personal income tax rates. The tax reform can create both positive and negative effects to the economy and to the people.

In this environment the need to achieve efficiencies across the business and increase levels of productivity have never been greater.

We are also working to further enhance customer engagement, make banking more accessible for our clients, and advance the development of cooperative and mutual enterprise throughout the nation.

My thanks go to my fellow Board colleagues for their valuable input and guidance. To our management and employees, I commend you for your teamwork and continuous dedication in building a strong Philippine Business Bank. My deep appreciation also goes to our loyal customers for your continued trust and confidence in us, and we likewise remain committed to supporting you. Finally, to our steadfast shareholders, thank you for your support.

FRANCIS T. LEE
Chairman

MESSAGE FROM THE PRESIDENT & CEO

Dear Shareholders:

February 12, 2017, marked our 20th anniversary of establishment. I would like to take this opportunity to thank our clients, stockholders, regulators, suppliers and members of the local community for your support during this period. Since the time of our establishment, we have operated according to the basic management policy of working to create a bright and prosperous future for the region.

Furthermore, we aim to be a bank that serves its clients on a host of fronts by anticipating their needs 10 or even 20 years in the future, and our executives and employees will put all their efforts into addressing this challenge. We thank you for your patronage going forward.

FINANCIAL AND ECONOMIC ENVIRONMENT

2017 proved a challenging year with the prevailing effects of the volatility in commodities and currencies playing out on the global economy and local environment. Subdued economic growth and an uncertain international arena also affected many businesses. That, in turn, had some impact on ours.

Nevertheless, the Philippines remained among the fastest growing emerging economies in the region although slightly slowing in 2017 due to the lack of boost from election-related spending unlike in 2016.

The government's thrust of continuing the previous administration's infrastructure projects means that government spending will continue to ramp up. The gross domestic product (GDP) grew 6.6 percent in the fourth quarter of 2017, a similar pace from a year ago but slower than the better-than-expected 7-percent expansion in the third quarter.

The 2017 GDP growth figure was a strong finish that keeps the Philippines' position as one of the fastest-growing economies in Asia after China's 6.9 and Vietnam's 6.8 percent. The manufacturing, trade, as well as real estate, renting, and business activities were the growth drivers in the fourth quarter.

The Philippine banking industry is expected to continue growing this year and next, driven by the sector's low interest rates, improved asset quality, solid profitability, boosted by the country's strong economic growth. Philippine banks are expected to continue expanding in 2017 and 2018, with loan growth seen to hit a 15% to 17% in the next two years, higher than end-2016's actual 16.5% increase.

"... we aim to be a bank that serves its clients on a host of fronts by anticipating their needs 10 or even 20 years in the future ..."

ROLANDO R. AVANTE
President and CEO

MESSAGE FROM THE PRESIDENT & CEO

Loan growth among Philippine banks is expected to remain strong compared to its regional peers for the next two years amid sustained expansion, and with borrowing costs and interest rates remaining low “by historical standards” and banks still having excess liquidity to lend.

2017 FINANCIAL PERFORMANCE

Despite the waves of uncertainty caused by volatile commodity markets, slowing global economic growth and the changing geopolitical landscape, we have stayed resilient with our strong balance sheet and steady financial results. We have always believed in balancing growth with stability, creating value for our stakeholders and being able to support our clients through economic cycles.

We achieved net profit after tax of Php640.086 million in 2017, 4.3 percent lower than a year ago. Our core businesses delivered stable results with total income of Php4.269 billion, driven by loan and fee income. Net interest income was up by 21 percent in 2017 to Php2.779 billion, led by healthy loan growth in the SME, consumer, commercial, and corporate segments. Gross loans rose 37.2 percent to reach Php70.818 billion at the end of the year. Net interest margin was at 4.3 percent.

We maintained our strong funding position. Customer deposits grew 24.8 percent to Php73.522 billion. The Group’s loan-to-deposit ratio remained at 96.32 percent.

Our capital position remained healthy at Php10.226 billion. As of 31 December 2017, the Group’s Common Equity Tier 1 and Total Capital Adequacy Ratios (“CAR”) remained strong at 13.1 percent and 14.0 percent, respectively.

We maintained our position as one of the country’s top-rated savings banks and the number one stand-alone savings bank.

BUILDING ON OUR STRENGTHS

In 2017, we continued to build on our strengths in connecting businesses with opportunities across the country, in harnessing technology to make banking more convenient and in providing the right solutions for our clients.

We will continue to deepen our relationships with clients through sectoral focus and industry specialization. The past year saw strong growth in the corporate and institutional client businesses, as we strengthened our product capabilities in the areas of cash management, interest rate, investment solutions, trade finance and specialized finance structures. Transaction banking remains one of our stable income generators, supporting our liability management, which is a key priority as we seek to optimize our funding costs.

We recognize the important role that small- and medium-sized enterprises (SMEs) play as the bedrock of development in most economies. To help them achieve sustainable business growth through productivity enhancement, we provide them with financial solutions with right balance of prudence and enterprise.

For 20 years, Philippine Business Bank has consistently been the bank of choice of the small and medium enterprises in the country for its wide portfolio of financial products and services apart from its visible presence in several commercial and industrial centers of the country. Our lineup of products includes commercial, industrial, and developmental loans, which mostly cater to the SME market segment; as well as consumer loans like auto, salary, and housing loans.

Along with strengthening this particular service, PBB also shared its initiative to transition from mostly just SME corporate business-related transactions to a more inclusive set of services by including loan products and services catering to secondhand auto, brand new cars, and real estate.

EMBEDDING OURSELVES IN THE CLIENT’S JOURNEY

To become more customer-centric, we have made it a priority to embed ourselves in the client’s journey. This means thinking about banking not as a separate activity, but as one that should be seamlessly interwoven into a client’s everyday life. To do so, we need to have a relentless focus on customers’ needs and making it happen today.

We seek to understand customers’ needs from the start, during the process, identifying all points and addressing these long before any banking is done.

Many of our employees have been trained in the clients’ journey and human-centered design, with 1,373 compassionate employees [as December 31, 2017]. These journeys involve collaborations across business and support units, as well as across the regions, engaging a large part of the organization.

MESSAGE FROM THE PRESIDENT & CEO

GROWTH OPPORTUNITIES FOR OUR PEOPLE

In addition, we have continued to strengthen the capabilities of our people to provide quality service and solutions to our customers. While we attract people with aptitude for their specific roles, we focus on ensuring they also possess and demonstrate the right attitude – one that is based on our values of honor, enterprise, unity and commitment.

At every stage in an employee's career with us – from hiring and training to progression, rewards and recognition– we review and reinforce the strength with which the individual upholds the values of PBB.

Ultimately, we want our customers to experience a quality of service that is distinctively that of PBB – the spirit of a handshake, where they can always count on our word, sincere in making things happen for them, today. We held our inaugural AO Rewards Program which recognize the efforts of our account officers from across the organization who live up to our values and who meet our client commitments: to treat our customers fairly, to provide them with the right solutions and financial service, to know them personally and to be there for them when it matters.

> "... we want our customers to experience a quality of service that is distinctively that of PBB – the spirit of a handshake, where they can always count on our word, sincere in making things happen for them, today. "

2018 OUTLOOK

Looking ahead, we can expect the ongoing volatility and a less predictable environment to persist. The prospects of higher interest rates in the US in 2017 may be a positive driver for banks' margins.

Despite the uncertainties, ASEAN's fundamentals remain sound and the major trends driving growth – a vast and growing consumer market, rising intra-regional trade and continued investment flows – remain promising. We are confident of the region's mid- to long-term growth prospects and its ability to weather external shocks.

Fueled by the desire to serve more SMEs, we have increased our branch presence in areas with high concentration of the said market such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City. We have also aggressively extended our footprint in provinces that are underserved or not served at all by other financial institutions. In the past years, only a handful of branches were established in Metro Manila whereas around 70 were set up in the provinces, mostly in Southern Luzon, Visayas and Mindanao.

In the coming months, the bank will open branches in Aseana City in Parañaque, Catbalogan in Samar, Ormoc in Leyte, and Solano in Nueva Vizcaya, bringing PBB a total branch network to 156.

PBB is also planning to set up an initial eight to ten consumer finance centers around the Philippines, including lending centers in Central Luzon, Batangas, Iloilo, Legazpi, Cagayan de Oro, Davao and other parts of Visayas and Mindanao.

ACKNOWLEDGEMENTS

I would like to thank the Board of Directors for their insight and guidance, and our people for their dedication in doing what is right for our Bank, our customers and our community. To our valued customers and our investors, thank you for your continued confidence in PBB.

ROLANDO R. AVANTE
President and CEO

OPERATIONAL HIGHLIGHTS

Internal Seminars Conducted in 2017

No.	Title of Seminar	No. of Runs	Description	Target Participants
1	AMLA Orientation for New Hires	14	Orients participants on the pertinent policies and regulations pertaining to Anti-Money Laundering	All newly hired employees
2	AMLA Refresher Seminar	20	Provides participants with a review and updates on current Anti-Money Laundering policies and regulations	All incumbent employees scheduled for refresher
3	Account Officers' Training Program (AOTP)	1	A developmental program consisting of several relevant modules conducted to train and prepare Marketing Assistants to assume the position of Relationship Manager	Identified AOTP Trainees
4	Basic Supervisory Workshop	2	Provides participants with the basic principles and skills needed in supervision	Identified rank-and-file employees who are being prepared for promotion to first-level officer positions
5	Branch Officers' Training Program (BOTP)	1	A developmental program consisting of several relevant modules conducted to train and prepare branch rank-and-file employees to assume the position of Branch Operations Officer	Identified BOTP Trainees
6	Branch Based Selling Seminar	3	Provides participants with the basic knowledge and skills involved in in-house selling	Branch Operations Officers and branch rank-and-file employees
7	Branch Manager's Briefing on Consumer Protection and others	4	Orients/Briefs participants on the Bank's Consumer Protection Policy	Branch Heads
8	Business Connect Product Briefing	1	Orients participants on the features of the Business Connect facility	Relationship Managers
9	Check Truncation System Orientation	3	Orients the participants on the features of and the related policies and procedures pertaining to the use of the Check Truncation System	Identified branch rank-and-file employees
10	Compliance Coordinators Reporting System	3	Orients participants on the features and use of the Bank's Compliance Coordinators' Reporting System	Identified Compliance Coordinators
11	Counterfeit Detection Seminar	3	Provides participants with the necessary knowledge and skills in identifying counterfeit bills and coins	Branch rank-and-file employees
12	Customer Service for the Staff	1	Covers the basic principles and best practices in customer service	Rank-and-file employees
13	Data Privacy Act Seminar	1	Orients participants on the features and salient points of the Data Privacy Act	Members of the Board of Directors and Senior Management
14	Employee Engagement Seminar	1	Discusses the importance of the need to be engaged in one's duties and responsibilities to attain better efficiency at work	Selected employees
15	Fire Safety/Evacuation Orientation	1	Orients participants on basic skills and procedures pertaining to fire safety and evacuation	Identified Fire Marshals
16	Fraud Awareness & Risk Management Seminar	3	Provides participants with the necessary knowledge and skills in detecting fraudulent documents	Branch rank-and-file employees
17	International Financial Reporting System 9 (IFRS 9)	1	Discusses the pertinent topics under the International Financial Reporting System	Members of the Board of Directors and Senior Management
18	Internal Workshop on Systems Development Life Cycle	1	Discusses recommended changes to the existing SLDC framework in compliance with BSP/Audit findings	Selected personnel from various Head Office units
19	Megaloans Phase II Seminar	4	Orients participants on the features of and the use of the Megaloans System	Relationship Managers and Marketing Assistants
20	Professional Image Workshop	3	Orients participants on proper grooming, decorum, and proper office attire/uniform	All branch and Head Office employees
21	Project Management Fundamentals Seminar	1	Orients and discusses the practices in project management as acknowledged by Project Management Institute of the Philippines	Selected personnel from Information Technology Group
22	Signature Verification Seminar	6	Provides participants with the necessary knowledge and skills in detecting fraudulent signatures	Branch rank-and-file employees
23	Work Attitude & Values Enhancement (WAVE)	10	Discusses the importance of values and adopting the proper attitude in the performance of one's job	All rank-and-file employees
		88		

Internal Seminars Conducted in 2017 for Members of the Board and Senior Management

No.	Title of Seminar	No. of Runs	Description	Target Participants
1	Data Privacy Act Seminar	1	Orients participants on the features and salient points of the Data Privacy Act	Members of the Board of Directors and Senior Management
2	International Financial Reporting System 9 (IFRS 9)	1	Discusses the pertinent topics under the International Financial Reporting System	Members of the Board of Directors and Senior Management
		2		

External Seminars - 2017

CTR	Title of Seminar	Date of Seminar	No. of Pax	Provider
1	Market Risk Management: identification, Assessment and Control	January 14 & 21, 2017	2	BAIPHIL
2	How May I Help You? Customer Service 101 for Frontliners	January 26, 2017	5	Ateneo Professional School-Salcedo Campus
3	Fundamentals of Information Systems Audit	February 4, 11, 18, 2017	1	ISACA
4	75th BAP Treasury Certification Program	February 6-22, 2017	1	Ateneo - BAP Institute of Banking
5	Aligning Information Security	February 11, 2017	1	BAIPHIL
6	HR Leadership Conference 2017	February 22-23, 2017	2	Business Maker Academy
7	All About Payroll and Withholding Taxes	February 23, 2017	3	Powemax Consultancy
8	IFRS 15 and 16 Updates	February 24, 2017	3	P&A Grant Thorton Academy
9	Hiring Effective Employee	March 23, 2017	2	CFS Creative Training and Management
10	Workshop on IT Governance and Enterprise Architecture	March 17, 2017	2	ISACA
11	Complaints Management Training	March 23, 2017	1	SAS Management, Inc.
12	Self Service Banking Asia 2017	March 22-23, 2017	1	Dimension Data & Palo Alto Networks
13	Fraud Risk Management	March 25, 2017	5	BAIPHIL

OPERATIONAL HIGHLIGHTS

14	Establishing Internal Controls in Banks per BSP Cir. #871 – Seminar Two	March 25, 2017	6	BAIPHIL
15	PLDT Enterprise: Move It, Build It	March 2, 2017	1	PLDT Smart SME Nation
16	Business Analysis	March 25, April 1 & 8, 2017	1	Mapua Information Technology Center
17	Credit & Collection In-Depth: The Risks and Strategies	March 29, 2017	1	CFS Creative Training and Management
18	Velocloud Product Launch	April 19, 2017	1	CT Link Systems Inc.
19	CISCO 2	April 22-July 1, 2017	3	Mapua Information Technology Center
20	Business Continuity Management Audit seminar	April 22, 2017	1	ISACA
21	1st FCC General Assembly for 2017	April 20, 2017	1	Pag IBIG Fund
22	SSS In-House Information Seminar	April 26, 2017	2	SSS
23	BSP Cir. #941 (Amendments to Past Due and NPL) and #855 (Sound Credit Risk Management Practices	May 3, 2017	2	Chamber of Thrift Bank
24	Understanding Bank Regulations for Bank Products	May 6 & 13, 2017	4	BAIPHIL
25	You Are Supported from Start to Finish	May 11, 2017	1	Dimension Data & Palo Alto Networks
26	Best Practices in Corporate Housekeeping	May 11-12, 2017	2	Center for Global Best Practices
27	Compliance with Financial Consumer Protection	May 12, 2017	2	BAIPHIL
28	BSP Cir. # 706 Amended by BSP Cir # 950, AML:A law, and the AML Risk Rating System	May 19, 2017	4	BAIPHIL
29	IT Governance Conference	May 25, 2017	1	ISACA
30	BSP Cir. # 706 Amended by BSP Cir # 950, AML:A law, and the AML Risk Rating System	May 26, 2017	3	BAIPHIL
31	Customer Experience Forum	May 17, 2017	1	Globe Telecom
32	HP A3 Launch Event	May 31, 2017	1	HP Phils.
33	Philippine Digital Convention 2017	June 14, 2015	1	PLDT
34	Automated Technologies Solutions Seminar	May 18, 2017	1	Automated Technologies Inc.
35	IT Governance Conference	May 25, 2017	1	ISACA
36	Macros Training for Bankers	June 8-9, 2017	2	BAIPHIL
37	One-Year Course on Trust Operations & Investment Management	July 1, 2017	2	Trust Institute Foundation of the Philippines (TIFP)
38	Understanding Financial Statement Seminar	July 7, 2017	1	Powemax Consultancy
39	77th BaP Treasury Certification	July 10-26, 2017	1	Ateneo - BAP Institute of Banking
40	Pre Post Implementation System Review	July 28-29, 2017	1	ISACA
41	How to Collect Debt without Using A Lawyer	July 28, 2017	1	Center for Best Practices
42	Fujixerox Training Program	July 6-7, 12-13, 2017	3	Fujixerox
43	Seminar-Workshop on Coin Classification and Sorting	July 19, 2017	2	BSP Ozamis Branch
44	Effective Business Writing	July 22, 2017	1	Business Coach Inc.
45	9th Biennial Compliance Workshop	August 10-11, 2017	4	ABCOMP
46	Workshop on Internal Controls: COSO Framework	August 15, 2017	1	PICPA
47	11th Philippine HR Congress	August 16-17, 2017	3	Ariva Events Management Inc.
48	Credit Investigation Techniques	August 24, 2017	4	Credit Management Association of the Phils.
49	Updated Guidelines on Sound Credit Risk Management	September 9, 2017	5	BAIPHIL
50	Breakfast of Champions	September 14, 2017	1	SoulbyDesign
51	Regulatory Updates: DOLE Rules	September 22, 2017	1	Punongbayan & Araullo
52	Querying SQL Server 2016	Sept. 22-23,29-30, & Oct. 7, 2017	5	Unlipro Learning Center Inc.
53	IT Security & Auditing	September 23, 2017	4	BAIPHIL
54	Spot Forwards and FX Swaps	September 23, 2017	1	BAIPHIL
55	Related Party Transactions	September 29, 2017	1	BAIPHIL
56	A Regulatory Perspective on Trust Activities	October 6 & 13, 2017	3	BAIPHIL
57	Credit & Collection Management	October 7, 2017	2	I-Learn Professional Solutions Inc.
58	Project Management Framework	October 21, 2017	3	BAIPHIL
59	VMWare vSphere 6.0 – Install, Manage & Configure	November 10-12, 2017	2	Nexus Education Services
60	Code of Champions	October 19, 2017	2	ARC Docendi Inc.
61	Wage Order #21 Orientation & Public Hearing/Consultation on Wages of Domestic Workers	October 13, 2017	2	DOLE
62	Enabling and Managing Office 365	October 23-27, 2017	1	NTT Data Phils. Inc.
63	Training of Trainers	October 12, 2017	2	Bangko Sentral ng Pilipinas
64	Currency Swaps and Forward Rate Agreement	October 14, 2017	1	BAIPHIL
65	CompTIA Linux Bootcamp Training	November 11-December 2, 2017	2	Rivan School of Technology
66	Recruitment & Talent Acquisition Summit	November 8, 2017	2	Ariva Events Management Inc.
67	Appraisal Seminar – Torrens Title, Property Identification & Valuation Process	November 22, 2017	2	Credit Management Association of the Phils.
68	IBM SPSS Training for Researchers	November 28-29, 2017	3	Strategic Research and Development Center, Inc.
69	BSP Cir. # 706 Amended by BSP Cir # 950, AML:A law, and the AML Risk Rating System	December 1, 2017	2	BAIPHIL
70	Understanding BSP Cir. #963	December 6, 2017	1	BAIPHIL

EVENT HIGHLIGHTS

PBB Embraces Change

The Philippine Chamber of Commerce and Industry – National Capital Region (PCCI-NCR) held its 25th Metro Manila Business Conference (MMBC) on July 27 & 28, 2017 at the Manila Hotel with the theme **"Going Global and Embracing Change @ 25: A Celebration of Success."**

This year's conference is hosted by the PCCI-NCR Central Sector composed of the city chambers of Mandaluyong, Manila, Marikina, Pasig, Quezon City and San Juan. It is a celebration of 25 years of collaboration among the members of PCCI-NCR, anchored on the theme of CHANGE. Renowned experts and top-caliber resource persons were invited to speak on topics about Institutionalizing, Integrating, Innovating and Internalizing Change.

The 25 years of staging of this annual area business conference reflects PCCI-NCR's value and manifests its determined effort to continually engage with its stakeholders–a fulfillment of its mandate as the voice of business in this part of the country. It is auspicious that the 25th MMBC also coincides with the 50th year of the ASEAN Foundation given that the Philippines is the country host for this year's ASEAN Summit with the theme, "Partnering for Change, Engaging the World."

A major highlight of the 2017 MMBC was the **Trade Exhibit and Exposition** which showcased the best of NCR with a separate but interfacing theme: **Tourism Convergence and Enhancing the MSME Value Chain.**

As part of its celebration, PCCI-NCR has seen it fitting to give recognition to MSMEs that have shown outstanding performance in their respective businesses.

PBB actively participated in the conference and trade exhibit to show that efforts are being undertaken by the Bank to reach more SMEs, especially in the areas that are underserved or not served at all by other financial institutions.

PBB Supports the Philippine Chamber of Commerce & Industry

Philippine Business Bank (PBB) – the financial arm of the Yao Group of Companies participated in the 43rd Philippine Business Conference and Expo of the Philippine Chamber of Commerce and Industry held at the Manila Hotel on October 18 – 19, 2017.

The 43rd PBC and Exposition is a two-day event that convenes business and government leaders both local and worldwide to exchange strategies in creating a more competitive business environment towards the projected economic transformation of the Philippines by 2022.

This year's theme is One. Global. Filipino ***"GIANT STEPS. Taking the LEAP Forward."*** GIANT STEPS spells out programs on the build-up of infrastructure; reducing the cost of doing business; enhancing innovation; and, strengthening key economic sectors such as tourism, agriculture and manufacturing. The PCCI embraced LEAP to ensure that GIANT STEPS moves forward. LEAP stands for **L**eadership, **E**nterprise, **A**ction and **P**erformance.

The conference highlights the private sector's list of recommendations to President Duterte: Fast tracking infrastructure projects, the implementation of the tax reform program and further easing the process of doing business.

"In PCCI, our constituents are mostly micro, small and medium enterprises (MSMEs) so we want to promote the ease of doing business. The local government somehow must have this sense of urgency to help the MSMEs," PCCI President George Barcelon said.

As mentioned by the former PCCI President, Amb. Alfredo M. Yao: "PCCI is dedicated to serving the business community and providing education and support services to further evolve local industries and enterprises - particularly small- and medium-size enterprises - into globally competitive ventures. PCCI has focused its strategies to create synergies among government, local businesses led by the chambers and development stakeholders."

PBB takes part in that same strategy; support for the financing of projects implemented for SMEs which is the key policy objective of the Bank, as the SME sector represents the engine of growth and innovation.

Delegates from PBB: (L-R) Chief Lending Officer Angline Hwang, VP Dolora Palma, Trust Head AVP Teresita Sion, PCCI Honorary Chairman and Treasurer Sergio Ortiz-Luis, Jr., Director Paterno Dizon, Treasury Marketing Head FVP Dulce Salud.

EVENT HIGHLIGHTS

PBB (again) Sponsors and Participates in Franchise Asia Philippines

Philippine Business Bank strengthens its thrust in supporting the small and medium enterprises by renewing its partnership with the Philippine Franchise Association as Bronze Sponsor of Franchise Asia Philippines 2017.

Franchise Asia Philippines 2017, Asia's biggest four-in-one franchise show, is organized by the Philippine Franchise Association and supported by the Department of Trade and Industry, the Philippine Chamber of Commerce and Industry, the Philippine Retailers Association, GoNegosyo, the World Franchise Council, and the Asia-Pacific Franchise Confederation.

Far Left: Mr. Franklin Go, Chairman Director, Legal, Governance & Ethical Standards Goldilocks
Far Right: Mr. Sam Christopher Lim, Director, Special Projects & Digital Innovations and Director, For ASEAN Blims Lifestyle Group

PBB provides support to SMEs, particularly the franchisees seeking to boost their businesses. As PFA promotes and sustains the growth of franchising as a tool for national development, PBB on the other hand, helps small companies make the most out of business opportunities as a one-stop-shop for all their financial needs.

Now on its 25th year, the country's longest-running franchise show featured a two-day international franchise conference (July 19-20), a three-day international franchise expo (July 21-23), the Certified Franchise Executive (CFE) program (July 17-18) and educational seminars for aspiring franchisors and franchisees (July 21-23).

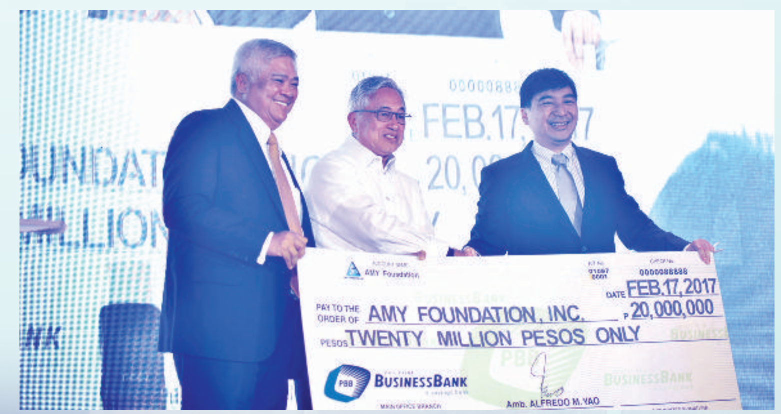
The Franchise Asia Philippines 2017 commenced on July 21-23, 2017 at the SMX Convention Center.

EVENT HIGHLIGHTS

MANILA
PBB's 20th Anniversary

MANILA

PBB's 20th Anniversary



CEBU
PBB's 20th Anniversary

EVENT
HIGHLIGHTS

DAVAO
PBB's 20th Anniversary





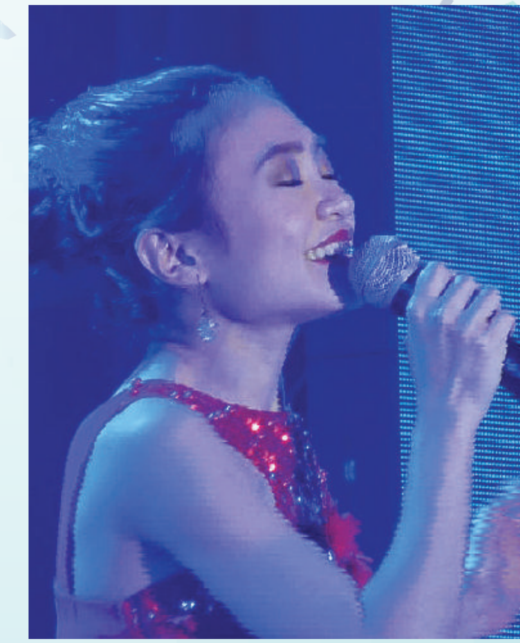








PERFORMERS
PBB's 20th Anniversary



A. FINANCIAL PERFORMANCE

For the calendar year ended December 31, 2017 and 2016:

	For the calendar period ended			
	12/31/2017	12/31/2016	Variance	%
Interest income	₱ 3,881,469,895	₱ 3,207,154,576	₱ 674,315,319	21.0
Interest expense	(841,831,345)	(734,732,780)	(107,098,565)	14.6
Net interest income	₱ 3,039,638,550	₱ 2,472,421,796	₱ 567,216,754	22.9

Interest income on loans and other receivables strengthened by 33.4% to ₱3.7 billion as of year-end 2017 as a result of the 37.2% increase in the Bank's loan volume and loan yields. Overall interest income ended at ₱3.9 billion, a 21.0% increase versus 2016's ₱3.2 billion.

Interest expense also increased by 14.6% from ₱734.7 million in 2016 to ₱841.8 million in 2017 due to the 12.6% expansion of interest expense on deposit liabilities as the need to raise funds arises to support the rapid growth of PBB's loan portfolio.

As a result, net interest income as of December 2017 stood at ₱3.0 billion, a 22.9% increase.

	For the calendar period ended			
	12/31/2017	12/31/2016	Variance	%
Core income				
Net interest income	₱ 3,039,638,550	₱ 2,472,421,796	₱ 567,216,754	22.9
Service charges, fees and commissions	200,841,789	151,446,102	49,395,687	32.6
Miscellaneous	47,147,687	84,734,375	(37,586,688)	(44.4)
	3,287,628,026	2,708,602,273	579,025,753	21.4
Non-interest expenses	(2,252,864,319)	(2,012,479,487)	(240,384,832)	11.9
Core income	₱ 1,034,763,707	₱ 696,122,786	₱ 338,640,921	48.6

Service charges, fees, and commissions grew by 32.6% due to the increased lending transactions while miscellaneous income incurred a 44.4% drop as foreign exchange gains, rental of safe / night deposit box, and penalties on loans were lower in 2017. Non-interest expenses also expanded from ₱2.0 billion in 2016 to ₱2.3 billion in 2017 owing to the ₱100.3 million increase in salaries and other employee benefit expenses in line with the Bank's continuous expansion.

As a result, PBB's core income reached ₱1.0 billion in 2017, a 48.6% increase from 2016's ₱696.1 million.

	For the calendar period ended			
	12/31/2017	12/31/2016	Variance	%
Core income	₱ 1,034,763,707	₱ 696,122,786	₱ 338,640,921	48.6
Trading gains (losses)	139,089,396	335,383,026	(196,293,630)	(58.5)
Pre-tax pre-provision profit	₱ 1,173,853,103	₱ 1,031,505,812	₱ 142,347,291	13.8
Loan loss provision	(260,519,609)	(157,043,157)	(103,476,452)	65.9
Taxes	(273,247,394)	(205,838,450)	(67,408,944)	32.7
Net income	**₱ 640,086,100**	**₱ 668,624,205**	**(₱ 28,538,105)**	**(4.3)**

Due to the continued global market volatility, trading opportunities were limited in 2017. Trading gains as of year-end stood at ₱139.1 million trading gains, down by 58.5% from 2016's ₱335.4 million. Due in part to the Bank's transition from the previous loan loss regime to its own loan loss model predicated on BSP Circular 855, loan loss provisioning was higher by ₱103.5 million from ₱157.0 million in 2016 to ₱260.5 million in 2017.

The Bank also incurred one-time expenses in 2017 amounting to ₱60.0 million for the agri-agra penalties and the celebration of PBB's 20th anniversary. Profit before tax, excluding the non-recurring expenses, should be 11.3% higher from ₱874.5 million last year to ₱973.3 million this year.

For the calendar year ended December 31, 2016 and 2015:

	For the calendar period ended			
	12/31/2016	12/31/2015	Variance	%
Interest income	₱ 3,207,154,576	₱ 3,140,643,449	₱ 66,511,127	2.1
Interest expense	(734,732,780)	(758,318,335)	23,585,555	(3.1)
Net interest income	₱ 2,472,421,796	₱ 2,382,325,114	₱ 90,096,682	3.8

Interest income grew by 2.1% from ₱3.1 billion in 2015 to ₱3.2 billion in 2016 as interest income from loans and other receivables and interest due from BSP and other banks increased by 4.0% and 53.1%, respectively. On the other hand, interest expense declined by 3.1% from ₱758.3 million to ₱734.7 million YoY as bills payable and other interest expenses declined by 99.6% and 64.4%.

As a result, net interest income grew by 3.8% or ₱90.1 million from ₱2.4 billion in 2015 to ₱2.5 billion in 2016.

	For the calendar period ended			
	12/31/2016	12/31/2015	Variance	%
Core income				
Net interest income	₱ 2,472,421,796	₱ 2,382,325,114	₱ 90,096,682	3.8
Service charges, fees and commissions	151,446,102	132,425,882	19,020,220	14.4
Miscellaneous	84,734,375	73,430,963	11,303,412	15.4
	2,708,602,273	2,588,181,959	120,420,314	4.7
Non-interest expenses	(2,012,479,487)	(1,780,166,990)	(232,312,497)	13.1
Core income	₱ 696,122,786	₱ 808,014,969	(₱ 111,892,183)	(13.8)

Service charges, fees and commissions increased by 14.4% from ₱132.4 million to ₱151.4 million YoY due to 76.6% and 16.0% growth in service charges for domestic bills and appraisal fees, respectively. Miscellaneous income expanded by 15.4%, or ₱11.3 million, as commitment, processing and handling fees in relation to services rendered by the Bank grew by 23.1%.

There was a ₱232.3 million increase in operating expense from ₱1.8 billion in 2015 to ₱2.0 billion in 2016. Significant increases of non-interest expenses above 10% are as follows: salaries and other employee benefits by 16.9%, depreciation and amortization by 11.3%, management and other professional fees by 34.2%, and miscellaneous expenses by 11.1%.

	For the calendar period ended			
	12/31/2016	12/31/2015	Variance	%
Core income	₱ 696,122,786	₱ 808,014,969	(₱ 111,892,183)	(13.8)
Trading gains (losses)	335,383,026	69,474,667	265,908,359	382.7
Pre-tax pre-provision profit	₱ 1,031,505,812	₱ 877,489,636	₱ 154,016,176	17.6
Loan loss provision	(157,043,157)	(172,050,358)	15,007,201	(8.7)
Taxes	(205,838,450)	(203,297,274)	(2,541,176)	1.2
Net income	**₱ 668,624,205**	**₱ 502,142,004**	**₱ 166,482,201**	**33.2**

FINANCIAL PERFORMANCE

Trading gains accelerated by 382.7% from ₱69.5 million last year to ₱335.4 million this year bringing pre-tax pre-provision profit to ₱1.0 billion in 2016, a 17.6% increase from ₱877.5 million in 2015. The Bank continues to set aside a certain portion of its income for impairment losses to cover its non-performing loans. Loan loss provision decreased from ₱172.1 million in 2015 to ₱157.0 million in 2016 as the NPL ratio declined from 2.9% to 2.5% in 2016.

Consequently, the Bank's net income grew from ₱502.1 million to ₱668.6 million, a 33.2% increase YoY.

For the calendar year ended December 31, 2015 and 2014:

	For the calendar period ended			
	12/31/2015	12/31/2014	Variance	%
Interest income	₱ 3,140,643,449	₱ 2,835,896,095	₱ 304,747,354	10.7
Interest expense	(758,318,335)	(600,616,735)	(157,701,600)	26.3
Net interest income	₱ 2,382,325,114	₱ 2,235,279,360	₱ 147,045,754	6.6

Interest income grew by 10.7% from ₱2.8 billion to ₱3.1 billion this year due to higher loan volumes booked this year. Interest expense also increased by 26.3% as the volume of deposits increased from ₱46.6 billion in 2014 to ₱55.1 billion in 2015.

The Bank's net interest income increased from ₱2.2 billion in 2014 to ₱2.4 billion in 2015. The growth was a direct result of the increase in interest income from ₱2.8 billion in 2014 to ₱3.1 billion in 2015, 10.7% growth year-over-year (YoY) while interest expense grew by ₱157.7 million from ₱600.6 million in 2014 to ₱758.3 million in 2015.

As a result, PBB's net interest income totaled ₱2.4 billion for the year 2015.

	For the calendar period ended			
	12/31/2015	12/31/2014	Variance	%
Core income				
Net interest income	₱ 2,382,325,114	₱ 2,235,279,360	₱ 147,045,754	6.6
Service charges, fees and commissions	132,425,882	127,487,177	4,938,705	3.9
Miscellaneous	73,430,963	144,153,797	(70,722,834)	(49.1)
	2,588,181,959	2,506,920,334	81,261,625	3.2
Non-interest expenses	(1,780,166,990)	(1,573,216,261)	(206,950,729)	13.2
Core income	**808,014,969**	**933,704,073**	**(125,689,104)**	**(13.5)**

Despite the increase in net interest income, its core income decreased by 13.5% from ₱933.7 million to ₱808.0 million. However, on a recurring basis core income would increase by 2.5% owing to a one time gain in miscellaneous income in 2014.

Service charges, fees and commissions expanded to ₱132.4 million, or a 3.9% growth YoY, while Miscellaneous income decreased by ₱70.7 million resulting in ₱73.4 million.

Non-interest expenses grew by 13.2% YoY as the Bank continued its expansion of its branch network and added manpower to handle its expanding business volume.

	For the calendar period ended			
	12/31/2015	12/31/2014	Variance	%
Core income	₱ 808,014,969	₱ 933,704,073	(₱ 125,689,104)	(13.5)
Trading gains (losses)	69,474,667	34,827,391	34,647,276	99.5
Pre-tax pre-provision profit	₱ 877,489,636	₱ 968,531,464	(₱ 91,041,828)	(9.4)
Loan loss provision	(172,050,358)	(189,887,127)	17,836,769	(9.4)
Taxes	(203,297,274)	(242,439,233)	39,141,959	(16.1)
Net income	**₱ 502,142,004**	**₱ 536,205,104**	**(₱ 34,063,100)**	**(6.4)**

The Bank's trading gains totaled ₱69.5 million, higher than last year's gain of ₱34.8 million, a 99.5% increase. As a result pre-tax pre-provision income rose to ₱887.9 million. PBB continues to set aside a certain portion of its income for impairment losses to cover its non-performing loans. The Bank decreased its provision by ₱17.8 million from ₱189.9 million in 2014 to ₱172.1 million in 2015.

Net income amounted to ₱502.1 million, which is 6.4% lower YoY from ₱536.2 million.

FINANCIAL POSITION

December 31, 2017 vs December 31, 2016

PBB's total resources as of December 2017 expanded by 24.2% from ₱70.3 billion to ₱87.3 billion, a ₱17.0 billion increase, on account of increases in due from BSP, due from other banks, and loans and other receivables.

Cash and other cash items decreased by ₱96.4 million in 2017 as loan funding requirements increased. Due from BSP grew by 5.6% due to the 28.4% increase in mandatory reserves. Due from other banks stood at ₱4.0 billion from ₱1.6 billion in 2016 as a result of the increased levels of placements and balances with counterparty banks.

Trading securities decreased by 65.6% to ₱2.4 billion in 2017 as PBB felt it was prudent to limit trading activities this year as a result of the rising interest rate environment. The Bank also shifted its focus on earning assets from trading portfolio to loans as loan demand was very strong and trading opportunities were limited in 2017.

Due to the increase in lending activity, loans and other receivables expanded by 37.2%, ending 2017 at ₱70.6 billion against 2016 figure of ₱51.4 billion.

Bank premises, furniture, fixtures, and equipment and investment properties dropped by 9.2% and 5.6% as additions were lower and disposals amounted to ₱73.6 million in 2017. Other resources also dipped by 1.6% ending the year with ₱1.8 billion.

Both low cost and high cost deposits increased by 15.5% and 31.3%, respectively, to cover the expansion of the Bank's loan book. As a result, total deposit liabilities ended at ₱73.5 billion, a 24.8% increase versus 2016's ₱58.9 billion.

In 2017, the Bank obtained bills payable amounting to ₱1.9 billion to support its loan book growth, while accrued expenses and other liabilities declined by 11.5% from ₱1.8 billion as of December 31, 2016 to ₱1.6 billion as of December 31, 2017. Overall liabilities as of 2017 ended at ₱77.0 billion, 26.9% higher than last year's figure of ₱60.7 billion.

Shareholder's equity stood at ₱10.2 billion in 2017, up by 6.9%. Book value per share net of preferred shares was at ₱14.9 as of December 2017 versus December 2016's ₱13.9, both adjusted after the 20% stock dividend declaration this year.

December 31, 2016 vs December 31, 2015

As of December 31, 2016, the Bank's total resources stood at ₱70.3 billion from ₱65.6 billion last year, a 7.1% increase as loans and other receivables expanded by 23.2% from ₱41.7 billion to ₱51.4 billion YoY.

Cash and other cash items declined by 14.1% from ₱1.3 billion to ₱1.1 billion YoY as the Bank paid out its bills payable in 2016.

Mandatory reserves were up by 12.2% while other than mandatory reserves declined by 49.4% making the total for due from Bangko Sentral ng Pilipinas as of full year 2016 down to ₱6.2 billion. Due from other banks also decreased by 42.2% as deposits from local and foreign banks decreased by 51.3% and 18.7%, respectively.

Trading and other investment securities decreased by 22.3% as the Bank unloaded its HTM securities amounting to ₱5.9 billion as of end 2016.

As of year-end 2016, the Bank's premises, furniture, fixtures, and equipment was reduced to ₱536.0 million from ₱562.6 million, a 4.7% decrease. This is due to the increase in disposals of furniture and fixtures, transportation equipment, and leasehold improvement from ₱6.2 million to ₱33.7 million YoY.

Investment properties also dropped by 33.6% to ₱448.4 million subsequent to the ₱390.4 million land disposal in 2016.

Other resources increased by 5.4%, or ₱91.8 million higher than last year's ₱1.7 billion as goodwill expanded by 119.3% following BSP's approval of the acquisition of Rural Bank of Kawit as the Bank recognized assets and liabilities at their fair values amounting to ₱59.5 million.

FINANCIAL PERFORMANCE

Due to the Bank's aggressive branch expansion project, deposit liabilities grew by 7.1% or ₱3.9 billion from ₱55.0 billion to ₱58.9 billion YoY. Both low cost funds and time deposits increased by 11.8% and 4.0%, respectively.

Accrued expenses and other liabilities decreased by 14.7% from ₱2.1 billion in December 31, 2015 to ₱1.8 billion as of December 31, 2016. This is primarily due to the 37.1% decline in bills purchased and paid out 100% of post-employee benefit obligation amounting to ₱23.4 million and ₱1.9 million derivative liabilities.

Shareholder's equity strengthened by 13.0% to ₱9.6 billion versus last year's ₱8.5 billion. Book value per share as of December 31, 2016 was at ₱16.7 versus last year's ₱14.6.

December 31, 2015 vs December 31, 2014

The Bank's assets reached ₱65.6 billion, a 13.4% increase compared to ₱57.9 billion last year. A major source came from loans and receivables which grew by ₱1.6 billion or 4.1% from ₱40.1 billion in December 31, 2014 to ₱41.7 billion in December 31, 2015 as a result of deployment of funds to borrowing clients.

Cash and Other Cash items improved by ₱105.3 million or 9.0% from ₱1.2 billion in December 31, 2014 to ₱1.3 billion in December 2015 due to significant increase in the number of branches.

Due from BSP grew by ₱3.1 billion or 68.46% from ₱4.6 billion in December 31, 2014 to ₱7.7 billion in December 31, 2015.

Due from other banks increased by ₱794.4 million or 39.1% from ₱2.0 billion in December 31, 2014 to ₱2.8 billion in December 31, 2015 this is an increase in excess cash in vault of branches deposited to our depository bank for transfer to BSP.

Bank Premises grew by ₱46.9 million or 9.1% from ₱515.8 million in December 31, 2014 to ₱562.6 million in December 31, 2015 due to branch expansion.

Investment Properties declined by 4.2% or ₱30.0 million from ₱705.7 million in December 31, 2014 to ₱675.8 million in December 31, 2015.

Other resources increased by 87.34% or ₱796.7 million from ₱912.1 million in December 31, 2015 to ₱1.7 billion in December 31, 2014.

Liabilities amounted to ₱57.1 billion as of December 31, 2015. This is ₱87.3 million or 14.6% higher compared to December 31, 2014 level of ₱49.8 billion. This is due to increase in the number of branches and aggressive deposit campaign.

Bills Payable decreased by ₱308.6 million or 99.7% from ₱309.5 million in December 2014 to ₱956.3 thousand in December 2015. Accrued expenses and other liabilities decreased by 27.82% or ₱807.9 million from ₱2.9 billion in December 31, 2015 to ₱2.1 billion in December 31, 2014.

RISK MANAGEMENT

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to various risks. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders. The Bank continually advances on its risk management techniques and integrate this into the overall strategic business objectives to support the growth objectives of the Bank.

PBB RISK MANAGEMENT OBJECTIVE AND FUNDAMENTALS

Bank Wide Objective: To achieve a corporate risk culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects to the bank's business as well as optimization of capital in terms of risk taking activities.

Risk Management Fundamentals:

1. Portfolio management by designated & accountable risk personnel,
2. Allocation of capital based on associated risks for each business unit,
3. Denotation of processes and output into quantifiable measurements,
4. Transparency and meritocracy

ENTERPRISE RISK MANAGEMENT FRAMEWORK

This is an integrated approach to the identification, measurement, control, and disclosure of risks. Capital allocation and preservation through prudent limits and stringent controls which are integral part of the governance structure. The Bank's Board of Directors formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee, which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group in the development and implementation of risk policies, processes and guidelines. The framework encompasses corporate governance and covers the risk spectrum of strategic, compliance, reputational, operational, market, liquidity, and credit. The ERM process flow is integrated in all stakeholders of the organization and deploying three (3) stages of defense to ensure that the risk management objectives are achieved.

RISK MANAGEMENT PROCESS

The Bank envisions to achieve risk and return consciousness among employees, anchored on streamline processes, reliable Management Information System, conversant, competent and accountable risk takers/constituents and good internal control, monitoring and escalation system as well as reward system to meritocracy. Enterprise Risk Management Group ("ERMG") is tasked to institutionalize an effective risk management framework that will encompass the foregoing risk management process.

Identify	Assess	Control	Monitor & Report
Identify key risk exposures	Measure extent of exposure and impact to earnings, capital, liquidity. Prioritize risk exposures	Implement the risk appetite of the Board through risk policies	Monitor effectiveness of controls

The ROC, supported by Enterprise Risk Management Group (ERMG) and in constant coordination with executive and other board-level committees, oversees the risk profile and risk management framework/processes of PBB. This ensures that risks arising from the Bank's business activities are properly managed and integrated into/used as basis for overall governance, strategy and planning, decision making and accountability purposes at all relevant levels of the organization.

The Enterprise Risk Management Group (ERMG), headed by the Chief Risk Officer, develops and reviews Risk Policies, and raises to management the various aspects of risk facing PBB. In addition, it also performs an oversight and monitors the performance of the different Business Units.

The Bank's philosophy is that responsibility for risk management resides at all levels in the organization. The Bank's corporate governance aimed to achieve corporate culture, processes and structures that are directed towards the effective management of potential

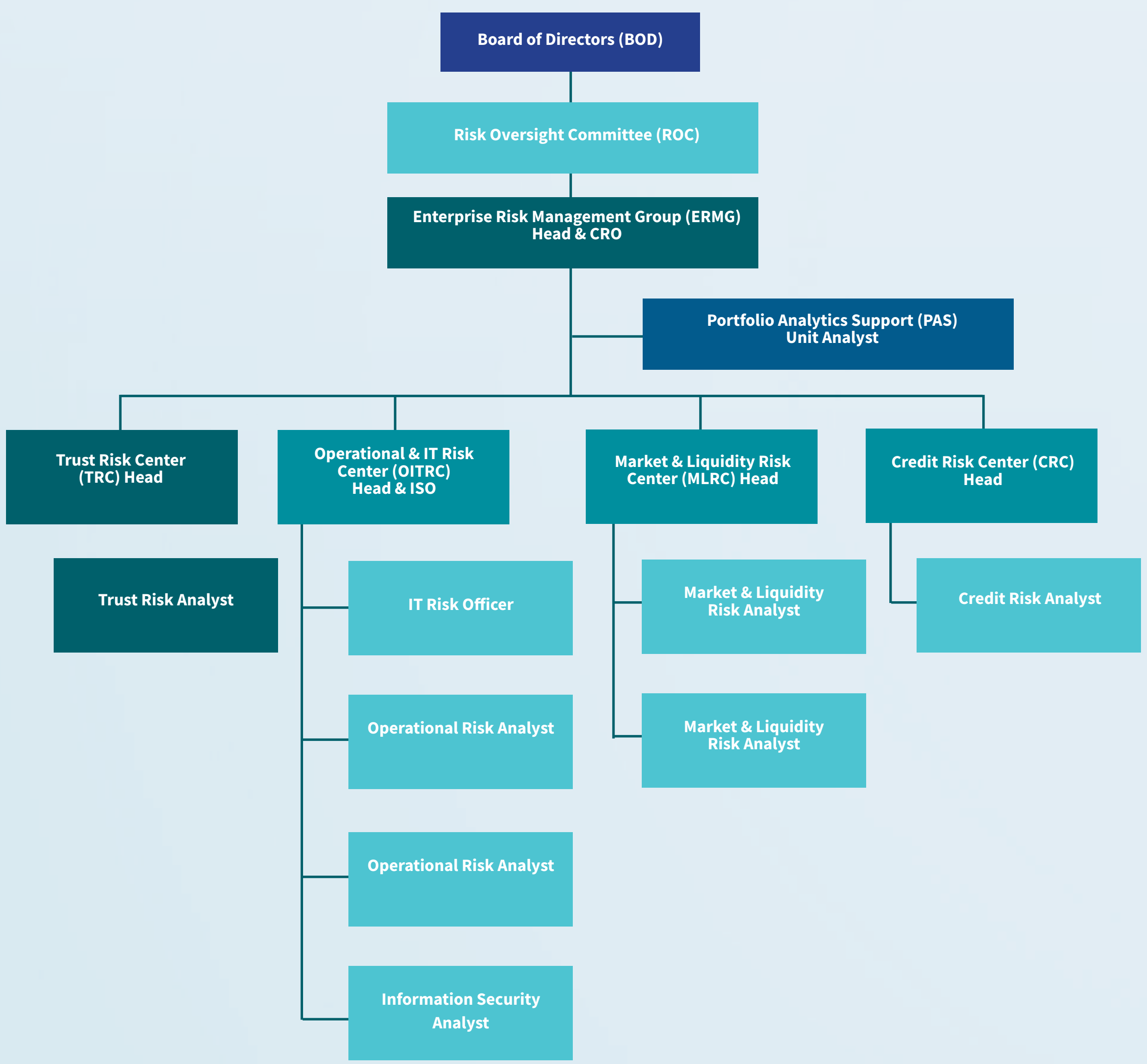
RISK MANAGEMENT

opportunities and adverse effects. ERMG shall continue to improve the framework in support of the Bank's strategic plans in order to achieve its mission, vision and objectives.

Every organization's optimal efficiency depends heavily on the effectiveness of its risk management processes thus PBB's day-to-day activities are undertaken under the integrated risk management approach.

OVERVIEW: ERMG ORGANIZATIONAL STRUCTURE

Develop and manage the enterprise risk management thrust of the Bank by aligning the bank strategies to its risk management objectives. Promotes a corporate risk culture and implements relevant risk management framework to optimize capital and institute best practices.



RISK MANAGEMENT POLICIES AND OBJECTIVES

CREDIT RISK MANAGEMENT

Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures.

The Bank's Credit Risk Management Framework seeks to fundamentally strengthen credit risk management practices and provide minimum set of operating standards that are consistent with BSP regulations and the Basel standards. PBB is committed to adopt sound policies and practices and institutionalize these within the organization:

- Establish an appropriate credit risk environment
- Operate under a sound credit granting process
- Maintain an appropriate credit administration, measurement and monitoring process
- Maintain an appropriate control process

The Bank has instituted improvements on its credit policies, which includes large exposure and credit concentration. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

It is the overriding credit risk policy that counterparty be subjected to credit risk rating prior to actual credit exposure to the potential borrower. Towards this end, the Bank instituted the Internal Credit Risk Rating System (ICCRS) and Payment Rating System (PRS). Credit risk premium should be recognized in credit accommodation thus optimizing reward over the risk taken.
The credit risk taking officers shall be responsible and accountable to their respective portfolio and ensure proper and timely qualitative management to prevent aggravated credit risk exposure. Only those rated as Acceptable shall be approved for loan accommodation.

Credit exposures shall be regularly assessed and loan loss provision be recognized in a timely manner to ensure that capital is adequate to support such risk exposure. To ensure that this is rationally implemented, the Bank developed and adopted an internal loan loss methodology described herein.

LOAN LOSS METHODOLOGY (LLM)

This is a methodology for calculating expected credit loss of each exposure. The internal LLM consists broadly of three (3) major components of which one emanates from the ICCRS and the other is based on historical recovery rate on credit facilities while the last is the credit exposure at any given time. The probability of default (PD) depends on the risk rating of the borrower while the other components are the loss given default on facilities and the exposure at default. There are three stages of impairment recognition pursuant to IFRS 9/ PFRS 9 as follows:

Stage 1 - at the origination stage
Stage 2 - performing but there is occurrence of loss event
Stage 3 - financial assets considered credit impaired.

Under Stage 2, the lifetime probability of default is used instead of the regular PD.

For Stage 3 accounts the Bank has a supplementary policy for Remedial and Timeline Recovery Program. Accounts beyond recovery period will merit 100% loan loss provisioning.

MARKET AND LIQUIDITY RISK MANAGEMENT

Market risk covers price, foreign exchange, liquidity and interest rate risks in the Bank's investment portfolio and net position. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets.

To measure market and liquidity risk exposure, the PBB utilizes metrics such as MTM, VAR, MCO, EAR and liquidity ratios as well as stress testing.

Starting January 1, 2018, PBB will adapt PFRS 9 (2014), Financial Instruments which will replace PAS 39, Financial Instruments: Recognition and Measurement, and the old versions of PFRS 9. Pursuant to PFRS 9 in managing financial assets, the Bank adopts the following business model:

1. Of the total funds allotted to Treasury, the following would be the distribution:
   a. Resources for its trading activities will be allocated and classified as Financial Assets measured at Fair Value through Profit and Loss (FVPL).
   b. Resources for interest income generating activity that will include interbank call loans and reserve eligible financial instruments will be allocated and classified as Financial Assets measured at Amortized Cost (HTC).
   c. Resources to address the liquidity requirement of the bank wil be allocated and classified as Fair Value through Other Comprehensive Income (FVOCI).

RISK MANAGEMENT

Business Model	Key Features	Measurement Category
Hold to Collect (HTC)	The objective of the business model is to hold the assets to collect contractual cash flows.	Amortized Cost
Fair Value Through Other Comprehensive Income (FVOCI)	The objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and The asset's contractual cash flows represent Strictly Payment of Principal plus interest (SPPI).	Fair Value with Unrealized Gain/Loss as Other Comprehensive Income (Capital Account)
Fair Value through Profit and Loss (FVPL)	This is the residual category. Financial assets should be classified as FVPL if they do not meet the criteria of FVOCI or amortized cost (HTC).	Fair Value

OPERATIONAL RISK MANAGEMENT

Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events

The Bank has partially automated the front-office, back office, and middle office operations as part streamlining operations procedures to mitigate operational risks. For treasury operations, this includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover risk exposures.

The Bank has institutionalized the bank wide operational risk and control self-assessment (ORCSA) as integral to the operation and IT risk management framework. The enterprise risk management process includes risk awareness programs to ensure identification and measurement of key risk indicators of each unique business and support units. The control and resolution of the residual risks is critical to the achievement of the over-all objective and strategies of the Bank.

To ensure that business disruptions are managed and extreme scenarios will be mitigated, the Bank conducts BCP exercises. Data Recovery Facilities are developed and tested for operability.

Further, information security policies were strengthened, disseminated and implemented across all units and personnel of the Bank.

A working IT Steering Committee is dedicated to oversee the automation program of the Bank to ensure that operating environment becomes competitive, advanced and up to the global standards and ready to digital communication challenges.

ANTI-MONEY LAUNDERING AND COMBATING TERRORISTS FINANCING (AML/CTF) RISK MANAGEMENT

PBB ensures that risks associated with money laundering and terrorists financing such as reputational, operational and compliance risks are identified, assessed, monitored, mitigated and controlled, to the end that the Bank shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

In accordance with R.A. 9160, as amended, the AMLC Revised Implementing Rules and Regulations, and BSP Circular 706, as amended by BSP Circular 950, PBB ensures that the four (4) areas of sound risk management practices are in place as follows:

1. **Board and senior management oversight**

The Board of Directors (BOD) is ultimately responsible in ensuring that the Bank fully complies with the provisions of the BSP-issued AML/CFT rules and regulations, the AMLA, as amended, and its RIRR. For this reason, the BOD oversees the Bank's AML/CFT compliance management. It is responsible in formulating and adopting a money laundering and terrorist financing prevention program that identifies, assesses, monitor and control money laundering and terrorist financing-related risks.

Senior management oversee the day-to-day management of the Bank, ensure effective implementation of its AML/CFT policies as embodied in the Board-approved MLPP and alignment of activities with the strategic objectives, risk profile and corporate values set by the board. Senior management is responsible in establishingthe management structure that promotes accountability and transparency and upholds checks and balances.

2. **Money Laundering and terrorist financing Prevention Program (MLPP)**

The Bank adopts a comprehensive and risk-based MLPP geared toward the promotion of high ethical and professional standards and the prevention of the Bank being used, intentionally or unintentionally, for money laundering and terrorism financing. The MLPP which is consistent with the AMLA, as amended and its RIRR and the provisions set out in BSP-issued AML Rules and Regulations and designed according to the Bank's corporate structure and risk profile is approved by the Board of Directors and well disseminated to all officers and staff who, under the law and the Bank's compliance program, are obligated to implement the same. PBB uses a single ML/TF risk management system for all its branches wherever they may be located to ensure the coordination and implementation of policies and procedures on a group-wide basis.

3. **Monitoring and reporting tools**

PBB adopts an AML/CFT monitoring system appropriate for its risk-profile and business complexity and in accordance with BSP Circular 706 as amended by BSP Circular 950. The system is capable of generating timely, accurate and complete reports to lessen the likelihood of any reputational and compliance risks, and to regularly apprise the BOD and senior management on AML/CFT compliance.

4. **Internal Audit**

The internal audit function associated with money laundering and terrorist financing is conducted by qualified personnel who are independent of the office being audited. It is supported by the Board of Directors and Senior Management, which has a direct reporting line to the Audit Committee.

CAPITAL ADEQUACY MANAGEMENT

The Bank's ability to sustain operations and engage in various risk taking activities within the capital adequacy framework is the foremost risk management objective. PBB aims to sustain capital adequacy beyond what's prescribed by the BSP and the Basel standards. Towards this goal, capital charge allocation is part of the risk and reward metrics. The risk weighted assets must be supported by ample risk capital at all times.

	2017	2016	2015
Core Tier 1 Capital			
Paid-up common stock	6,438	5,365	5,365
Paid-up perpetual and non-cummulative preferred stock	620	620	620
Additional paid-in capital	1,998	1,998	1,998
Retained earnings	607	1,011	589
Undivided profits	640	669	502
	10,303	9,663	9,074
Deductions from Core Tier Capital			
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses	-	-	(21)
Deferred tax assets, net of deferred tax liability	(494)	(494)	(494)
Total Deductions	(494)	(422)	(365)
Net Tier 1 Capital	9,809	9,241	8,709
Tier 2 Capital	678	470	376
	10,487	9,711	9,085
Risk Weighted Assets			
Credit Risk Weighted Assets	68,887	48,738	43,382
Operational Risk Weighted Assets	3,941	3,930	3,580
Market Risk Weighted Assets	2,092	4,477	4,378
Total Risk-Weighted Assets	74,920	57,145	51,340
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	14.0%	17.0%	17.7%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	13.1%	16.2%	17.0%

BOARD OF DIRECTORS

From Left to Right:

PATERNO H. DIZON
Independent Director

HONORIO O. REYES-LAO
Director

AMADOR T. VALLEJOS, JR.
Director

JEFFREY S. YAO
Vice Chairman

ALFREDO M. YAO
Chairman Emeritus

From Left to Right:

DRA. LETICIA M. YAO
Director

DANILO A. ALCOSEBA
Director

ROBERTO A. ATENDIDO
Director

BENJAMIN R. STA. CATALINA, JR.
Independent Director

FRANCIS T. LEE
Chairman

ROLANDO R. AVANTE
President & CEO

BOARD OF DIRECTORS PROFILE

CHAIRMAN FRANCIS T. LEE

Chairman Francis T. Lee, 69, was appointed Chairman of the Board on 26 July 2010 and last re-elected as Director on 26 May 2017. He was appointed Chief Operating Officer (COO) on 01 September 2011 before he held the Chairman position.

Active in the community, he served as President of the AMY Foundation – the CSR of the Yao Group of Companies, from 08 December 2003 up to 08 December 2013.

A career banker for more than 30 years, Mr. Lee started his banking career with Pacific Bank where he gained much experience and knowledge. His career progressed as he held a number of executive positions from Senior Manager rising to Senior Vice President at the Metrobank Group from 1988 to 2000 before he joined PBB.

His expertise and training include Philippine Institute of Banking in 1969; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002; Team Building Workshop in 2004 at PBB; Risk Awareness Seminar in 2009 at the Pacific Management Forum; and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2012 and in 2014; Corporate Governance Seminar for Board of Directors in November and in December, 2014; Corporate Governance Seminar for Board of Directors and Senior Officers conducted by the Risk Opportunities and Assessment Management, Inc. (ROAM) in 2015; AMLA for Board of Directors and Senior Officers in 2016; Corporate Governance: Fraud Awareness conducted by the Center for Training and Development, Inc. in 2016.

Mr. Lee studied Bachelor of Arts in Business Administration in Manuel L. Quezon University.

VICE CHAIRMAN JEFFREY S. YAO

Mr. Jeffrey S. Yao, 49, was appointed Director to the Board in 1999 and was appointed Vice Chairman to the Board on 01 April 2016. He was last re-elected as Director on 26 May 2017.

He currently holds directorship at ARC Holdings, Inc. and appointed as Treasurer since 2005; Asiawide Refreshments Corp. also as Treasurer since 2006. He is also the President of Bev-Pack Corp., Inc. since 2007; Director at Semexco Marketing Corp. and AMY Holdings, Inc. since 2008; Vice President at Downtown Realty Dev't. Corp. in 2009; Corporate Secretary at Mega Asia Bottling Corp. in 2010. He is the Director and Treasurer at the ARC Refreshments Corp. and at Mazy's Capital Inc., since 2013; he is the Vice President of Onnea Holdings, Inc since 2013; he is also the Vice President of Macay Holdings, Inc. also in 2013. He was also appointed Director at Zemar Development Corp. since 2014; and was also appointed the Chief Operating Officer (COO) of the Zest-O Corporation since 1995 then became the Chief Executive Officer (CEO) in 2014.

Mr. Yao started his career in the food and beverage industry when he was appointed as Plant Manager at Harman Food Philippines from 1990 to 1995.

He also held directorship at Export & Industry Bank from 1998 to 2012; and at Zest Airways, Inc. from 2008 to 2013.

He completed training in Basic of Trust at the Trust Institute of the Philippines in 2002, Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014 and in 2016; Corporate Governance Seminar for Board of Directors in November and in December, 2014; conducted by the Ateneo De Manila University - School of Government Distinguished Corporate Governance Speaker Series Part 1 in 2015; AMLA for Board of Directors and Senior Officers in 2016; Corporate Governance, Fraud Awareness conducted by the Center for Training and Development, Inc. in 2016.

Mr. Yao graduated from the Ateneo De Manila University with the degree of Bachelor of Science in Management Engineering.

PRESIDENT & CEO ROLANDO R. AVANTE

President & CEO Rolando R. Avante, 58, was appointed to the Board on 02 November 2011 and last re-elected on 26 May 2017. He held the position President and Chief Executive Officer since 02 November 2011.

Because of his strong background in treasury management, PBB has become one of the largest, fastest-growing and most respected savings banks. PBB was listed at The Philippine Stocks Exchange last February of 2013.

Mr. Avante, a banking industry veteran with more than three decades of experience, is guiding Philippine Business Bank through a brand resurgence.

He started his career as Senior Specialist under the Treasury Department of Multinational Investment and Bancorporation from 1979 to 1983; rose to Senior Manager under the Treasury Department at Phil. Commercial Capital, Inc. from 1983 to 1988.

His banking career includes Vice President for Local Currency Desk at CityTrust Banking Corp. from 1988 to 1994; Senior Vice President & Treasurer at Urban Bank from 1994 to 1995; First Vice President for Domestic Funds Management at Philippine Commercial International Bank from 1995 to 1999; Executive Vice President & Treasurer at China Trust (PHILS.) Commercial Bank Corp. from 1999 to 2009; Executive Vice President & Treasurer at Sterling Bank of Asia from 2009 to 2011.

He was elected President and Director at the Money Market Association of the Phil. (MART) in 1999 and elected the same position at ACI Philippines in 2011; he was also elected Vice Chairman at Insular Savers Bank in 2015.

His training includes Money Market at the Inter Forex Corp. in 1983; Treasury Management in Times of Crisis in 1984, Bourse Game in 1987 both conducted by FINEX; Rate Risk Game in 1989, Investment Banking Fundamental in 1990, Managing People in 1991 all at the Citibank APBI; Capital Market Instruments in Asia in 1992, Asset & Liability Management in 1995 both conducted by Euromoney; Asian Bond Fund II Workshop in 2004 at the Asian Bank; Securitization Law in 2006 at FINEX & SEC; ACI World Congress in 2011 at ACI Phil.; Economic Outlook 2012 in 2012 at the ANZ Private Bank Exclusive; Annual Global Markets Outlook in 2012 at Deutsche Bank; Entrepreneurs Forum in 2012 conducted by Business World; AMLA Seminar in 2012 at the Bangko Sentral ng Pilipinas; CEO Business Forum in 2012 at Punong Bayan & Araullo; Cross-Border RMB Business in 2012 at Bank of China; Eco Forum in 2012 at Security Bank; Phil. Business Conference in 2012 at the Philippine Chamber of Commerce & Industry; Annual Investment Outlook 2013 in 2013 at ANZ Private Bank; Philippine Investment Summit 2013 in 2013 at the Investment Banking Group; IPO Annual Asia Pacific in 2013 at CIMB; Corporate Governance Seminar for Board of Directors in November and in December, 2014; Eco Briefing conducted by First Metro in 2015; Strategic Leadership, Negotiating Skills both in 2015; Distinguished Corporate Governance Speaker Series Part 1 in 2015; ASEAN Corporate Governance Conference and Awards conducted by the Risk Opportunities and Assessment Management, Inc. (ROAM) in 2015; AMLA for Board of Directors and Senior Officers in 2016 conducted by the Bangko Sentral ng Pilipinas; and the 3rd Annual SEC-PSE Corporate Governance Forum conducted by SEC & PSE in 2016.

Mr. Avante graduated from the De La Salle University with the degree of Bachelor of Science in Commerce major in Marketing Management and has taken MBA units, also from DLSU.

MR. AMADOR T. VALLEJOS, JR.

Mr. Amador T. Vallejos, Jr., 70, was appointed to the Board on 27 May 1997 and last re-elected as Director on 26 May 2017.

Currently the General Manager of AMCHEM, he is also the Chairman of King of Travel and President of SMI Development Company.

He held directorships at the Philippine Association of Food Technology in 1988, Philippine Chamber of Food Manufacturer in 1989; and the Philippine Article Numbering Council in 1992.

He is also a member of the Professional Risk Managers International Association (PRMIA) since 2009.

Mr. Vallejos started as a Sales Representative at Mobil Oil Phil., Inc. from 1966 to 1974; from 1974 to 1976 he held the Marketing Manager position at Rockgas and transferred to Edward Keller Ltd. as the Department Manager from 1976 to 1984.

BOARD OF DIRECTORS PROFILE

His expertise and training include BAI Conference and Seminars on Technology in Banking taken in 1998 and 1999 both in BAI, USA; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014 and 2016; Corporate Governance Seminar for Board of Directors in November and in December, 2014; Updated Guidelines on Sound Credit Risk Management conducted by BAIPHIL in 2015; 3rd Annual SEC-PSE Corporate Governance Forum conducted by SEC & PSE in 2016.

Mr. Vallejos graduated from the Ateneo De Manila University with the degree of Bachelor of Arts in Economics.

MR. HONORIO O. REYES-LAO

Mr. Honorio O. Reyes-Lao, 73, was elected as a member of the board on 30 April, 2010 and last re-elected on 26 May, 2017.

A seasoned banker and business manager of more than 47 years, Mr. Reyes-Lao has experience in corporate and investment banking, branch banking, credit management, and general business consultancy. He started his banking career at China Banking Corporation in 1970 and retired in 2004.

In the span of 34 years, he set up the Research and Investment Management Department in 1973, which evolved into the present Corporate Planning Group and the Treasury Group. In 1976 he set up and managed a branch which led him to formally set up the Branches Administration Department in 1982. He managed the branches until 1991 as the First Vice-President. From 1991 to 2004, he headed the Account Management Group as a Senior Vice-President.

Mr. Reyes-Lao was appointed as a Senior Management Consultant at East West Banking Corporation in 2005 to 2006 and the Antel Group of Companies, a property development and management entity in 2007 to 2009.

In 2008 to 2009 he was appointed as President of Gold Venture Lease and Management Services, Inc. He held directorships at CBC Forex Corp. in 1997 to 2002; CBC Properties & Computer Center in 1993 to 2006; and CBC Insurance Brokers, Inc in 1998 to 2003.

Currently, he is an independent director at DMCI Holdings Incorporated, Semirara Mining and Power Corporation, DMCI Project Developers, Incorporated, Sem-Calaca Power Corporation, Southwest Luzon Power Generation Corporation and the Chairman of the Board of Space 2 Place, Inc.

The background and training of Mr. Reyes-Lao include Overall Banking Operation at the Phil. Institute of Banking in 1971-1972; Director Certification Program of the Institute of Corporate Directors (ICD) in 2004; and the AMLA Seminar for Board of Directors in 2014. To keep himself updated and continue his education, he attends the Distinguished Corporate Governance Speakers Series of ICD in 2015 to 2016; Asean Corporate Governance Conference in 2015 and the SEC Corporate Governance Forum in 2016.

Mr. Reyes-Lao holds a post-graduate degree of Master in Business Management, from Asian Institute of Management and he graduated with a double degree in Bachelor of Arts, major in Economics and Bachelor of Science, major in Accountancy from De La Salle College.

DRA. LETICIA M. YAO

Dra. Leticia M. Yao, 64, was appointed to the Board in 2009 and last re-elected as Director on 26 May 2017.

A well-respected figure in the healthcare industry, Dra. Yao was appointed at the United Doctors Medical Center (UDMC) as a Consultant at the Department of Medicine from 1991 to 2012. She was also a Consultant at the Providence Hospital, Inc. in 2014 and at the Fe Del Mundo Medical Center in 2017.

Dra. Yao held directorships at Harman Foods Phil. Inc. since 1979; Zest-O Corporation since 1981; Solmac Marketing, Inc. and Uni-Ipel Industries, Inc. since 1986; SMDI Development Corp. since 1988; and in Mega Asia Bottling Corp as Treasurer since 2007.

She proceeded along training for Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002 and further taken the Risk Awareness Seminar at the Pacific Management Forum in 2009. Earlier this year, she attended the AMLA Seminar at the Bangko Sentral ng Pilipinas, and Corporate Governance Seminar for Board of Directors in November conducted by the Ateneo De Manila University – School of Government and on December 2014 to hone her skills as Director of PBB. She also attended the Distinguished Corporate Governance Speaker Series Part 1 in 2015; Corporate Governance Seminar for Board of Directors and Senior Officers conducted by the Risk Opportunities and Assessment Management, Inc. (ROAM) in 2015; AMLA Seminar conducted by the BSP in 2016; AMLA for Board of Directors and Senior Officers in 2016; Corporate Governance, Fraud Awareness conducted by the Center for Training and Development, Inc. in 2016.

Dra. Yao graduated from the University of Sto. Tomas with a Bachelor of Science degree in Medical Technology then pursued her post graduate degree in Medicine also from the University of Sto. Tomas.

MR. ROBERTO A. ATENDIDO

Mr. Roberto A. Atendido, 70, was appointed to the Board on 26 May 2006 and last re-elected as Director on 26 May 2017. He was a former Independent Director of the Bank from 2006 to 2012.

He is a seasoned investment banker and a recognized expert in the field with over 30 years of investment banking and consulting experience in the Philippines and in the ASEAN region.

Mr. Atendido started his career in consulting with the management services group of Sycip, Gorres & Velayo, the largest accounting and consulting group in the Philippines from 1973 to 1974. He began his investment banking career in Bancom Development Corporation, the leading investment house in the Philippines during the late 60's and 70's. He was later posted as Vice President of Bancom International Ltd in HK from 1980-1982. He then moved to PCI Capital Asia, Ltd. (HK) as Vice President from 1982-1983. The PCI Group posted him in Indonesia as Managing Director of PT Duta Perkasa Chandra Inti Leasing, a joint venture between the PCI Group of the Philippines and Bank Duta and Gunung Agung Group of Indonesia, from 1983-1988. Mr. Atendido moved back to the Philippines in 1988 as President of Asian Oceanic Investment House, Inc., a fully owned subsidiary of the Asian Oceanic Group of HK. The company was later bought by the Insular Life Group and renamed Insular Investment & Trust Corporation. In 1996, Mr. Atendido together with several investors organized Asian Alliance Holdings & Development Corporation (AAHDC) and later established Asian Alliance Investment Corp. (AAIC) as a wholly owned investment banking subsidiary. He is currently President of AAHDC and Executive Vice Chairman of AAIC.

Currently, Mr. Atendido is a member of the Board of Directors of Paxys Inc. (since 2010), PCP (since 2006), Pharmarex, Inc.(since 2012), Macay Holdings, Inc. (since 2013), and Gyant Food Corp. (since 2015). He is also Vice Chairman and Director of Sinag Energy Philippines, Inc., (since 2008), Director of Sinag Global (since 2015), Chairman of Myka Advisory and Consulting Services, Inc. (since 2010).

He also held directorships in the past in GEM Communications & Holding Corp. (2002 – 2015), Ardent Property Development Corp. (2004 - 2008) where he was also appointed Treasurer, Philippine Stock Exchange (2005 - 2009), Securities Clearing Corporation (2006 - 2010), Export & Import Bank as an Independent Director (2006 - 2012), Marcventures Holdings, Inc. (2010 - 2013), Carac-An Development Corp. as Chairman from 2010 - 2013, Beneficial Life Insurance Corp. from 2008-2014.

He has equipped himself with training in Corporate Governance & Risk Management for the Bank's Board of Directors at the Development Finance Institute in 2003; Risk Management and Basel 2 Seminar at the Export & Industry Bank in 2007. He attended the Anti-Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas and the Corporate Governance Seminar for Board of Directors in November and in December, 2014; Corporate Governance Seminar for Board of Directors and Senior Officers conducted by the Risk Opportunities and Assessment Management, Inc. (ROAM) in 2015; Distinguished Corporate Governance Speaker Series Parts 1 to 3 in 2015; AMLA for Board of Directors and Senior Officers in 2016; 3rd Annual SEC-PSE Corporate Governance Forum conducted by SEC & PSE in 2016.

BOARD OF DIRECTORS PROFILE

Mr. Atendido is a graduate of the Asian Institute of Management with a Master's in Business Management Degree in 1973. He completed his Bachelor of Science in Management Engineering from the Ateneo de Manila University.

Apart from his business activities, Mr. Atendido is also active in the Brotherhood of Christian Businessmen and Professionals, a nation-wide Christian community where he served as Chairman from 2009-2011.

MR. PATERNO H. DIZON

Mr. Paterno H. Dizon, 79, was appointed Independent Director to the Board on April 2006 and last re-elected as Independent Director on 26 May 2017.

He had previously served as President to the following institutions: Science Park of the Phil. Inc., Cebu Light Industrial Park, Inc., and RFM Science Park of the Philippines, all from 1997 to 2003. He has also been the President and CEO of the Holy Cross College of Pampanga since 2012.

Mr. Dizon held directorships at the Holy Cross College of Pampanga as the Executive Director from 1975 to 2011; Hermosa Ecozone Development Corp. from 1997 to 2003; Export & Industry Bank from 1994 to 2006; and EIB Securities from 2004 to 2006.

He served on the board of Phil. Export-Import Credit Agency from 2010 to 2012; he was elected as the Chairman of the Phil. Exporters' Confederation Inc. since 1990 up to the present; he was appointed Independent Director at the VC Securities Corporation from 2016.

His expertise includes training in Money and Banking from the Ateneo De Manila University in 1959, Financial Management at SGV in 1974, Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, Risk Awareness Seminar at the Pacific Management Forum in 2009, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014 and 2016; Corporate Governance Seminar for Board of Directors in November and in December, 2014; Distinguished Corporate Governance Speaker Series Part 1 conducted by the Institute of Corporate Directors in 2015; ASEAN Corporate Governance Conference and Awards in 2015, which was also conducted by the ICD; 3rd Annual SEC-PSE Corporate Governance Forum conducted by SEC & PSE in 2016.

Mr. Dizon holds a Bachelor of Science in Economics from the Ateneo De Manila University and a Master in Business Administration from the University of the Philippines.

MR. BENJAMIN R. STA. CATALINA

Mr. Benjamin R. Sta. Catalina, 70, was appointed Independent Director to the Board on July 2012 and last re-elected as Independent Director on 26 May 2017. He first assumed his independent directorship at PBB in 2003 to 2005.

During his early professional years, Mr. Sta. Catalina started as a Technical Assistant at the SGV & Co. in 1970 to 1971; he joined Citibank N.A. in 1973 to 1974 as an Executive Trainee. From 1974 to 1977 he joined CityTrust Banking Corp. as Asst. Vice President and Division Head II. Mr. Sta. Catalina transferred to World Corporation Group Citibank N.A. where he was Asst. Vice President and Account Manager from 1977 to 1980.

Mr. Sta. Catalina became the Senior Vice President of the Asset Based Finance Group of FNCB Finance Co. from 1980 to 1981. He again joined Citibank N.A. from 1981 to 1995 where he served as Asst. Vice President & Division Head for the Public Sector Division, then became the Vice President and Asst. Director of the Asia Pacific Training Center. He later handled the Middle East Africa Division Training Center as Vice President and Associate Director, and then handled the World Corporation Group for Middle East Africa Division, as Regional Administrator. He was appointed General Manager and handled the Center for International Banking Studies. In 1993 to 1994, Mr. Sta. Catalina was appointed Vice President and Chief of Staff of the Global Finance Marketing, then rose to Group Head where he handled the Pan Asian Corporate Team in 1994 to 1995.

In the academic sphere, he was a Professor at the Ateneo De Manila University from 1974 to 1981 and was the Executive Director of the Center for Banking and Financial Management of the Asian Institute of Management in 1996.

In addition to holding a number of executive positions, he underwent training including Makati CAD in 1974, Philippine Core Credit in 1976, Intermediate Credit Seminar in 1977, Exceptional Sales Performance in 1978, Bourse Game in 1979, Asset Based Finance Seminar in 1980, Electronic Banking Seminar in 1981, Selling Skills Train the Trainer Program in 1982, Advanced Lending Strategy in 1982, Technology for Senior Management in 1983 from the Asia Pacific Training Center. He attended Multinational Business Course in 1980 at Citibank New York, Face to Face Selling Skills in 1986 at the Boston Consulting Group. In 1987 he attended the MAC Approach Course and Alcar Valuation Seminar at MEAD Training Center in Greece. He attended the Corporate Finance II in 1988 at the Asia Pacific Banking Institute. At MEAD Training Center in London, he attended the Risk Management Seminar and the Risk Management III – Corporate Finance in 1991. From 1993 to 1995, Mr. Sta. Catalina attended the Strengthening Organizational Capabilities, Service Quality Management, Technology Solutions for the Business, Marketing Derivatives Ideas, Standards Workshop, Marketing Financing Ideas to Issuers at Citibank Training Center.

Most recent, he attended the Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2003, and the Anti Money Laundering Act Seminar in 2014 and the Corporate Governance Seminar for Board of Directors in November and in December, 2014, the Distinguished Corporate Governance Speaker Series Parts 1 and 2 in 2015 conducted by the ICD and the Corporate Governance Forum conducted at the Center for Training and Development, Inc. in 2016.

Mr. Sta. Catalina is a graduate of the Asian Institute of Management with a post graduate degree of Masters in Business Management. He finished his Bachelor of Science in Management Engineering from the Ateneo De Manila University.

DANILO A. ALCOSEBA

Mr. Danilo A. Alcoseba, 66, was appointed to the Board on 27 May 2016 and re-elected as Director on 26 May 2017. The former President and CEO of PBB has 40 fruitful years in the banking industry. He served PBB from 2008 to 2011.

Before joining PBB, he was a Consultant at SM Investments Corporation from 2005 to 2007; Advisor to the Board at China Banking Corp. from 2005 to 2007; Senior Vice President and Treasurer at SM Prime Holdings in 2007.

His expertise focused on treasury products and services, where he served as First Vice President of the Boston Bank of the Philippines' Treasury Division from 1983 to 1998. He started his career as Assistant Manager for Economics under Corporate Planning for Continental Bank from 1973 to 1974; transferred to United Laboratories as Staff Analyst in 1974; went back to the banking industry in 1974 as Assistant Corplan Head in Consolidated Bank & Trust Company; he was then Project Analyst under the Special Studies Group in 1975, Liquidity Specialist in 1976 then Branch Manager at Bancom Development Bank from 1977 to 1979, then rose to Assistant Vice President of Traders Royal Bank from 1979 to 1983.

He was appointed Independent Director at Robinsons Bank from 2013 to 2014.

Mr. Alcoseba's training include financial derivatives, foreign exchange, general management, corporate governance, risk management, fixed income trading and investment banking both taken at Singapore, and international trade he took in California.

He attended Orientation Course on Corporate Governance for Bank Directors and Professional Directors Program both conducted by the ICD in China Bank in 2002 and 2004, respectively. He again trained in Financial Derivatives independently in 2002 and in 2004.

During his stint with PBB, he attended Risk Awareness in 2009; Corporate Governance Forum conducted by the SEC in 2016; AMLA Seminar conducted by the Bangko Sentral ng Pilipinas also in 2016.

Mr. Alcoseba graduated from the University of San Carlos with the degree of Bachelor of Science in Commerce major in Accounting and has taken his Masters in Business Administration from the University of the Philippines and units of graduate studies in Industrial Economics from the Center for Research and Communication.

MANAGEMENT COMMITTEE

IRIS P. ALMERINO
AVP
Center Head, Commercial Banking Center 2

ROLANDO G. ALVENDIA
VP
Chief Accountant

ROSELLE M. BALTAZAR
FVP
Head - Central Operations Group

SERGIO C. BASCO
AVP
Head - Branch Operations & Control Group

REYNALDO T. BORINGOT
SVP
Business Development Executive

JOSEPH EDWIN S. CABALDE
SVP
Head - Treasury Services Group

CONSUELO V. DANTES
SVP
Head - Human Resource Group

MARIA DORIS G. DE CHAVEZ
AVP
Credit Review Center Head

AGUSTINE E. DINGLE, JR.
FVP
Chief Compliance Officer

FELIPE V. FRIGINAL
FVP
Head - Branch Banking Group

RODEL P. GENEBLAZO
FVP
Head of PBB Acquired Bank

ANGELINE ANN H. HWANG
SVP
Institutional Banking Group Head

JACQUELINE A. KORIONOFF
AVP
Center Head, Commercial Banking Center 1

EMMA K. LEE
AVP
Systems & Methods Center Head

MANAGEMENT COMMITTEE

EFREN P. MERCADO
VP
Center Head - Commercial Banking Center 3 & 4

EDUARDO R. QUE
FVP
Head, Corporate Banking Group

LAURENCE R. RAPANUT
AVP
Head, Internal Audit Center

CLARISSA S. RIVERA
VP
Head, Consumer Banking Group

BELINDA C. RODRIGUEZ
FVP
Chief Risk Officer
Enterprise Risk Management Group Head
Data Protection Officer

ROBERTO S. SANTOS
VP
Legal Counsel
Corporate Secretary

ROSENDO G. SIA
SVP
Business Development Executive

TERESITA S. SION
AVP
Head, Trust & Investment Center

JOHN DAVID D. SISON
VP
Head, Corporate Planning and Investor Relations Group

JUDITH C. SONGLINGCO
AVP
Head, Product Dev't. & Corporate Affairs Unit

MIAMI V. TORRES
VP
Head, Credit Management Group

JOSE MARIA P. VALDES
FVP
Head, Information Technology Group

LIZA JANE T. YAO
FVP
Head, General Services Group

PETER N. YAP
SEVP
Chief Operating Officer

OUR SUCCESS STORIES

(L-R: EVP Perry Doroja - PDPI; Pres. Vicente D. Ong III – BCBI; Pres. & CEO Rolando R. Avante – PBB; Nery Joachim D. Ong - PDPI; Corp. Sec. Victoria O. Banzon – PDPI)

PBB Partners with Pueblo de Panay

Sacred Heart of Jesus Development Corp. (SHJDC), Blue Chip Business Corp. (BCBI)and Pueblo De Panay, Inc. (PDPI) signed a loan agreement with Philippine Business Bank (PBB), thereby securing a firm hold on Pueblo De Panay township – a most sought-after real estate property in Roxas City.

The loan signing ceremony was held at Circulo Convention Center, Roxas City on September 12, 2017. Following the signing of the loan agreement, PBB and PDPI's group officers hailed the agreement as highly beneficial to the province of Panay – underscoring the fact that the transaction of this magnitude between these companies should further boost the economy of Panay.

Rolando R. Avante, President and CEO of PBB, expressed great satisfaction with the project. "It is a privilege to be here with you to kick off the contract signing on seizing business opportunities towards the partnership between Pueblo De Panay, Sacred Heart JDC, Blue Chip Builders, Inc. and Philippine Business Bank."

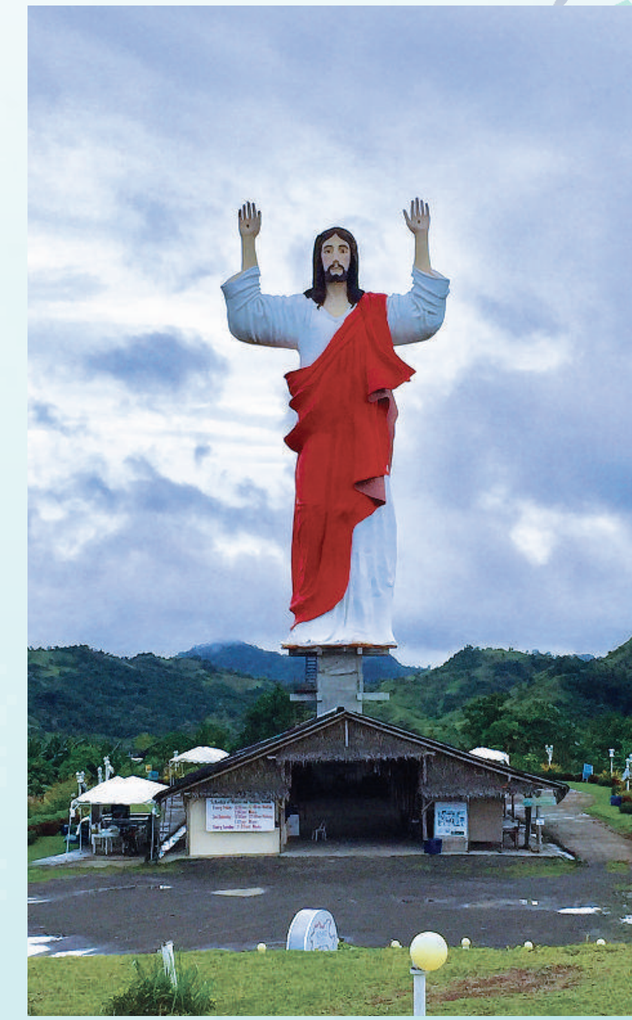
"I believe that this is an excellent partnership that will enable us to build an outstanding mixed-use development which will offer a wide range of property investment and lifestyle options to the people of Roxas." Mr. Avante added.

The partnership will allow the companies to combine their capabilities toward the development of a 500-hectare integrated, master planned, mixed-use project, and Filipino-inspired township located in the Seafood Capital of the Philippines.

The efforts taken by local professionals to introduce this project of Pueblo De Panay is commendable and in line with government's initiative to promote the development of infrastructure outside Metro Manila as a new driver for economic growth of the country. PDPI offers enormous opportunities and potential in economic regeneration, innovation and wealth creation.

"I took an interest in this project right after my visit with PBB's Roxas City Branch Head - Lex C. Paragas, in October of last year. I saw how good the place was and I wanted to hear its story. This project will be the new commercial, residential and recreational area for Panay," according to Mr. Avante.

(L-R: Lex Paragas – PBB Roxas City Branch Head; Judith Songlingco – PBB Marketing Head; Benjie Malazarte – PBB Account Officer)



PBB's focus of expansion has shifted away from Metro Manila. In the past few years, only a handful of branches were established in Metro Manila whereas majority were set up in the provinces, mostly in Southern Luzon, Visayas and Mindanao, whose local economies have the potential to grow like Roxas City.

This is the evidence that in PBB, we feel more of our relevance in the provinces, in the countryside rather in Metro Manila.

"By making things happen today," Philippine Business Bank will help build strong business communities where people can achieve their dreams" is the vision that has guided the bank in all of its 20 years.

The partnership between Pueblo De Panay, Sacred Heart JDC, Blue Chip Builders, Inc. and Philippine Business Bank will not materialize if not for PBB's Roxas City Branch Head - Mr. Lex C. Paragas.

Passionate about his bank -- PBB, and the community it serves, he sees innovation as an opportunity and not as an obstacle. Dedicated to the organization's success and fearlessly embraces change and encourages others to do the same.

Lex always looks for ways to collaborate and deliver bigger and better results. Simply an individual who has vision and the talent to bring in good partnerships.

OUR SUCCESS STORIES

Business based on mutual trust

PBB supports United Auctioneers Inc.

In 1997, despite the seemingly insurmountable shadow of the Asian financial crisis, Dominic Lim Sytin and his family started United Auctioneers Inc., an industrial auction company with the goal of supplying its customers the equipment they would need to run their businesses. Two decades later, the company that was once seen as such a bold and risky move is now the biggest auction company in the Philippines.

It was in no small part due to the relationship Mr. Sytin has established with Francis T. Lee, Chairman of the Philippine Business Bank (PBB). "When we started our auction business, we needed a dependable bank to take care of our cash management, especially during the entire auction cycle," Mr. Sytin said.

Giving Mr. Lee a call, he remembered how the banker "readily approved, guaranteed and mobilized people from the head office" to support their endeavor. From then on, PBB has been a partner in the company's every auction since 1998.

Their relationship had formed years prior, when Mr. Sytin, barely 25 years old, secured a P25 million loan from Mr. Lee, who was then working at another commercial bank. From 'face value' alone, Mr. Lee decided to put his trust in the young man and approved the loan. Later, when Mr. Lee moved to the upstart PBB, Mr. Sytin went to repay him in kind.

"I walked into Philippine Business Bank to open an account to deposit as a payback for the trust and confidence that Mr. Lee gave me," Mr. Sytin said. "The break that he gave me when I was a struggling 25 year-old entrepreneur, our bond of friendship, and mutual trust and respect is beyond words to describe. And him working with a successful visionary like ambassador Alfredo M. Yao is a combination made in heaven."

"I have no regrets walking into Mr. Lee's office that first day that I saw him again at Philippine Business Bank," he added.

It is that kind of customer-oriented relationship that is the crux of Philippine Business Bank's business, Mr. Sytin noted. As the bank celebrates its 20th year of providing assistance to local small and medium enterprises, he recalled how much of his own company grew with its help. He expressed his appreciation for how the bank's management and staff have gone 'beyond the call of duty' during his company's development. Likewise, as the bank's client, he is delighted to think that United Auctioneers has also helped PBB grow into what it is today.

"I would like to think that our very fruitful and beneficial co-existence has been anchored on mutual trust throughout the years and I don't see any reason why it would not continue to grow for the next 20 years," Mr. Sytin said.

Regarding the future, as United Auctioneers looks towards expanding its operations from Subic to Davao and other provincial locations in the coming year, Mr. Sytin is assured that he can continue to rely on Philippine Business Bank.

"Without asking Chairman Francis Lee, I can bet my last dollar that they are going to be there to support us in every venture we get into," he said.

PBB Partners with Limketkai – the Pride of Cagayan De Oro

Earlier this year, PBB sealed the contract to partner with Innov Block Development Corp. for the construction of a 7-storey mall that will soon rise in Camarin, Caloocan City.

The Limketkai Lifestyle & Podium is owned by the family of Mr. Alfonso U. Lim who also runs Limketkai Manufacturing Corp., a fully integrated manufacturing operations engaged in corn grits mills, feed mill, corn oil extraction plant and refinery, coconut oil mill and refinery. Mr. Alfonso U. Lim also spearheads Limketkai Sons, Inc. who operates the largest business district in Cagayan De Oro.

Mr. Alfonso Lim is focused on several key areas for growth across his real estate and agri-manufacturing companies. "Given the enduring success of the Limketkai Centre and Limketkai Luxe Hotel, we are confident of launching a hotel chain, shopping mall and other similar undertakings in Metro Manila and surrounding growth areas," says Mr. Lim.

Hearing the plans of Mr. Lim and sharing his vision, PBB did not hesitate to grab the opportunity for the partnership, to finance the project. Across the country, commercial real estate developers are responding to the lure of one of the world's fastest-growing consumer markets and rushing to build malls for eager retailers. The fact that when the shopping center is built, it creates jobs – albeit construction – as well as post-construction because the retailers will employ people from the direct community. Not only shoppers depend on malls to provide growth opportunities, but particularly the small and medium entrepreneurs surrounding its community.

"I am a strategist at heart," says Ms. Alfonso Lim. "I meticulously plan every business venture, always making adequate provisions for long-term eventualities. That's my nature.

The country is a large target market for rapidly expanding and urbanizing and hugely under-supplied with quality real estate. This is where PBB comes in to partner with entrepreneurs with dedication and with eyes focused on the future.

The groundbreaking of the project came about on September 26, 2017.

PBB's Chief Lending Officer Angeline H. Hwang, PBB's Pres. & CEO Rolando R. Avante, Limketkai Manufacturing Corporation's Chairman & CEO Alfonso U. Lim, Mr. Alfie Thomas C. Limketkai, and Donabel L. Chua

BRANCH OF THE YEAR

Back-to-Back ... Grace Park Branch has done it again!

In recent years, organizations, particularly in the banking sector, are obliged to render more services in addition to their offers. The quality of service has become an aspect of customer satisfaction.

It has been proven by some researchers that service quality is related to customer satisfaction.

This dimension holds true with PBB's Grace Park, Caloocan Branch. Being Branch of the Year in 2015 and in 2016 - awarding ceremony took place on June 30, 2017 at the Luxent Hotel, gaining the back-to-back awards with respect to the relationship between customer satisfaction and rendered service quality.

What is Grace Park's secret in receiving this prestigious award for the second time?

The principal objective of any bank, or branch for that matter, is to maximize profits and to minimize cost. Profit maximization can be achieved through increase in sales [combination of loan and deposit products] with lesser costs. One of the factors that can help increase sales is customer satisfaction, because satisfaction leads to customer loyalty, recommendation and referral, then repeat purchase.

Grace Park, Caloocan Branch headed by Ms. Merle Perpetua C. Singson has again proven herself that her style can be characterized as dynamic. Truly, her branch has encountered considerable amount of difficulties to increase or at least to maintain market share. The increasing number of banks in Caloocan led, on the one hand to increased competition, and on the other hand to increased standards that banks must meet to gain a net advantage in this area.

> "The quality of service has become an aspect of customer satisfaction."

Partnership or long-term cooperation relation between a bank and its clients is the proof of that bank's efforts in providing quality services that meet customer demands. PBB's Grace Park, Caloocan is a living proof.

PRODUCTS AND SERVICES

DEPOSIT AND INVESTMENT SERVICES

- Savings Account
- Checking Account
- ATM Account
- CA/SA (Auto-Transfer)
- Campus Savers
- Peso Time Deposit
- Hi-5 TD
- FCDU Savings
- FCDU Time Deposit
- Hi-Green Funds

COMMERCIAL, INDUSTRIAL AND DEVELOPMENTAL LOANS

- Agri-Agra Loans
- Bill Purchase
- Bus and Taxi Loan
- Contract to Sell (CTS) Financing
- Discounting Line
- Fleet Financing
- Loan Line
- Omnibus Line
- Specialized Lending Facilities for SMEs
  - DBP IGLF and ISSEP
  - SSS Developmental Loans
- Term Loan
- Trade Finance
  - Documentary Collections under DP/DA/OA
  - Export LC Advising/Negotiation
  - Floorstock/Inventory Financing
  - Issuance of Bank Guarantee/ Standby LC
  - Issuance of Credit Line Certification
  - Issuance of Import/Domestic LC
  - Issuance of Shipside Bond
  - Trust Receipt Financing

CONSUMER LOANS

- Auto Loan
- Housing Loan
- Salary Loan

TRUST PRODUCTS AND SERVICES

- Employee Benefit Plans Under Trust
- Escrow Agency
- Individual FCDU Trust
- Insurance Trust
- Investment Management Account – Personal or Corporate
- Mortgage Trust Indenture
- PBB Diamond Fund – a UITF
- Personal Management Trust
- Safekeeping
- Trustee of Pre-Need Plans

OTHER SERVICES

- Advisory Services, SSS/PHILHEALTH Payments
- Bills Payment/Collection Services
- Group Payroll Services
- Local Payment Orders (Manager's Check and Gift Check)
- Mail & Telegraphic Transfers (Domestic and International)
- Night Depository Box (Selected Branches)
- PBB Gold Sale (open to jewelry manufacturers and industrial users)
- Safety Deposit Box Facilities

OUR BRANCHES

METRO MANILA

A. MABINI - C3
ADRIATICO -MALATE
BANAWE
BANAWE KALIRAYA
BETTER LIVING - PARAÑAQUE
BINONDO CORPORATE CENTER
BONIFACIO GLOBAL CITY
CAMARIN
CARMEN PLANAS
COMMONWEALTH
CONCEPCION-MARIKINA
CONGRESSIONAL AVENUE - QUEZON CITY BRANCH
CUBAO
DEL MONTE
EDSA - CALOOCAN
BUSINESS CENTER
EDSA MONUMENTO
ELCANO
GRACE PARK
GREENHILLS
JOSE ABAD SANTOS
KAMIAS - ANONAS
KARUHATAN - MALINTA
KAYBIGA
LAS PIÑAS
LEGASPI VILLAGE - MAKATI
MADRIGAL BUSINESS PARK
MAIN OFFICE (CALOOCAN)
MAKATI
MALABON
MALABON RIZAL
MANDALUYONG
MARIKINA
MUNTINLUPA
NAVOTAS
NOVALICHES
ORTIGAS
PASAY
PASAY - MALIBAY
PASIG BLVD - KAPITOLYO
PASO DE BLAS
PATERNO-QUIAPO
PEDRO GIL - PACO
QUINTIN PAREDES
RETIRO
ROOSEVELT
SALCEDO VILLAGE - MAKATI
SAMSON ROAD
SUCAT PARAÑAQUE
THE FORT
TIMOG ROTONDA
VALENZUELA
WEST AVENUE

PROVINCIAL

ANGELES
ANTIPOLO
ANTIPOLO - MASINAG
BACOLOD
BAGUIO CITY
BALANGA
BALIUAG
BATANGAS
BENGUET - LA TRINIDAD
BIÑAN LAGUNA
BOCAUE
BORACAY
BUTUAN
CABANATUAN
CAGAYAN DE ORO - COGON
CAINTA
CALAMBA
CALAPAN
CAUAYAN, ISABELA
CEBU - BANILAD
CEBU - CONSOLACION
CEBU CITY - DOWNTOWN
DAGUPAN
DASMARIÑAS- CAVITE
DAVAO - BAJADA
DAVAO - LANANG
DAVAO - C.M. RECTO
DAVAO - SALES
DAVAO - TAGUM CITY
DAVAO - TORIL
DINALUPIHAN
DIPOLOG CITY
DUMAGUETE BRANCH
ESCARIO CEBU BRANCH
GAPAN
GENERAL SANTOS - SANTIAGO BLVD
GENERAL TINIO
ILIGAN
ILOILO
IMUS
IRIGA ALBAY
KALIBO
LA UNION
LAOAG LAPU-LAPU CITY
LEGAZPI CITY
LIMAY
LIPA CITY
LUCENA CITY
MALOLOS
MANDAUE
MEYCAUAYAN
MOLINO, BACOOR
MUZON
NAGA
OLONGAPO
OZAMIS CITY
PANABO, DAVAO
PANGASINAN - LINGAYEN
PANIQUI - TARLAC
PUERTO PRINCESA - PALAWAN
ROXAS CITY
SAN FERNANDO
SAN PEDRO - LAGUNA
SANTIAGO
SORSOGON
STA. MARIA
STA. ROSA
SURIGAO
SUBIC - ZAMBALES
TACLOBAN
TAGBILARAN
TANAUAN
TARLAC
TUGUEGARAO
URDANETA
VIGAN
ZAMBOANGA

52 METRO MANILA BRANCHES

90 PROVINCIAL BRANCHES

OUR BRANCHES

METRO MANILA BRANCHES

MAIN OFFICE BRANCH
350 Rizal Ave. Ext. cor. 8th Ave.
Grace Park, Caloocan City
Phone: (632) 363-3333
Fax: (632) 363-0291

A. MABINI C-3
200 A. Mabini St.
Maypajo, Caloocan City
Phone: (632) 287-8895; 287-6621
Fax: (632) 288-1249

ADRIATICO - MALATE
G/F Hostel 1632
Adriatico Street, Malate, Manila
Phone: (632) 353- 3258; 450-1482
Fax: (632) 353-3262

BANAWE
Unit 5-7 Solmac Bldg.
84 Dapitan cor. Banawe St.
Sta. Mesa Heights, Quezon City
Phone: (632) 708-5810; 410-8656
Fax: (632) 410-9019

BANAWE - KALIRAYA
Motorex Philippines, Inc. Bldg. 148
Banawe cor. Kaliraya St.
Brgy. Tatalon, Quezon City
Phone: (632) 711-1015
Fax: (632) 711-0918

BETTER LIVING - PARAÑAQUE
156 Doña Soledad Avenue
Better Living Subdivision
Brgy. Don Bosco, Parañaque City
Phone: (632) 846-8727
Fax: (632) 846-8163

BINONDO CORPORATE CENTER
1126 Soler St. Binondo, Manila
Phone: (632) 242-0601;
310-3785; 310-3784
Fax: (632) 242-7927

BONIFACIO GLOBAL CITY
Stall CS 152 and 153 MC Home Depot
32nd St. cor. Bonifacio Blvd.
Bonifacio Global City, Taguig City
Phone: (632) 831-8127; 831-9971
Fax: (632) 507-2325

CAMARIN
Zabarte Town Center
588 Camarin Road
cor. Zabarte Road
North, Caloocan City
Phone: (632) 962-0627; 962-0160
Fax: (632) 962-0232

CARMEN PLANAS
869 Carmen Planas St.
Binondo, Manila
Phone: (632) 522-7972 ; 245-5066
Fax: (632) 245-5226

COMMONWEALTH - FAIRVIEW
G/F Datamex - College of St. Adeline
Commonwealth Avenue East
Fairview Park Subd., Quezon City
Phone: (632) 376-9477; 428-7104
Fax: (632) 376-2358
Region Office: (632) 376-9477

CONCEPCION - MARIKINA
Bayan-Bayanan Avenue
Concepcion Uno, Marikina City
Phone: (632) 948-5688; 955-6172
Fax: (632) 948-4213

CONGRESSIONAL AVENUE - QUEZON CITY
622 Congressional Avenue
Brgy. Bahay Toro, Quezon City
Phone: (632) 921-2919; 921-2932
Fax: (632) 453-7242

CUBAO
Units D, E & F Timbol Singh Bldg.
915 Aurora Blvd. Cubao, Quezon City
Phone: (632) 709-3695; 438-9966
Fax: (632) 709-3649

DEL MONTE
284-286 Del Monte Avenue
Quezon City
Phone: (632) 708-5801;
749-9103; 414-2726
Fax: (632) 742-2655

EDSA - CALOOCAN BUSINESS CENTER
574 EDSA Highway, Caloocan City
Phone: (632) 363-2493;
363-0105; 367-3592
Fax: (632) 363-1635

EDSA - MONUMENTO
261 EDSA Highway, Barangay 85
Zone 8, Caloocan City
Phone: (632) 294-1837; 949-8673;
Fax: (632) 294-1830

ELCANO
730 Elcano St., Binondo, Manila
Phone: (632) 241-9824; 241-5629
Fax: (632) 241-4287

GRACE PARK
249 Rizal Ave. Ext. cor. 7th Ave.
Grace Park, Caloocan City
Phone: (632) 361-0941
Fax: (632) 361-1004

GREENHILLS
G/F LGI Building, Ortigas Avenue
Brgy. Greenhills, San Juan City
Phone: (632) 234-9018; 576-8365
Fax: (632) 234-9016

JOSE ABAD SANTOS
1737-1739 Jose Abad Santos
Tondo, Manila
Phone: (632) 230-2344; 964-8216
Fax: (632) 230-4033

KAMIAS - ANONAS
G/F Armon's Building
142 Kamias Road cor. Anonas St.
Quezon City
Phone: (632) 366-6874; 434-1491
Fax: (632) 366-6876

MALINTA
G/F MS Apartelle Building,
415 McArthur Highway,
Dalandanan, Valenzuela City
Phone: (632) 282-0231
Fax: (632) 283-3348

KAYBIGA
Guilmar Marble Corporation Bldg.
#297 General Luis St.
Kaybiga, Caloocan City
Phone: (632) 352-7872
Fax: (632) 936-9685

LAS PIÑAS
Unit 1 & 2 G/F San Beda Commercial
Zapote Alabang Road, Las Piñas
Phone: (632) 874-7966; 871-0092
Fax: (632) 875-0589

LEGASPI VILLAGE - MAKATI
Sunrice Terraces 100 Perea St.
Legaspi Village Brgy. San Lorenzo
Makati City
Phone: (632) 551-2419; 310-5929
Fax: (632) 551-2416

MADRIGAL BUSINESS PARK
Unit 102 G/F Corporate Centre
1906 Finance Drive
Madrigal Business Park
Muntinlupa City
Phone: (632) 822-6646; 822-6716
Fax: (632) 822-2706

MAKATI
137 Yakal Street, Makati City
Phone:(632) 892-6768;
817-5720; 812-4755
Fax: (632) 892-8498

MALABON
155 Governor Pascual Avenue
Malabon City
Phone: (632) 288-0078; 446-3444
Fax: (632) 287-7873

MALABON - RIZAL AVE.
726 Rizal Avenue
Brgy. Tañong, Malabon City
Phone: (632) 376-1434; 447-6044
Fax: (632) 376-1433

MANDALUYONG
Unit I Facilities Centre
Shaw Blvd., Mandaluyong City
Phone: (632) 470-3244; 718-0103
Fax: (632) 531-3537

MARIKINA
306 J. P. Rizal Street
Sta. Elena, Marikina City
Phone: (632) 646-5864; 369-4002
Fax: (632) 646-6294

MUNTINLUPA
G/F Units 1 and 2 #50 National Road
Putatan, Muntinlupa City
Phone: (632) 798-0284
Fax: (632) 551-0010

NAVOTAS
G/F Teresita Bldg.
North Bay Blvd., Navotas City
Phone: (632) 355-4143; 355-4159
Fax: (632) 355-4274

NOVALICHES
Krystle Bldg.858 Quirino Highway
Novaliches, Quezon City
Phone: (632) 936-3467; 938-4038
Fax: (632) 418-3132

ORTIGAS BUSINESS CENTER
E Prime 24-A
CW Home Depot - Ortigas
#1 Doña Julia Vargas Avenue cor.
Meralco Avenue
Barangay Ugong, Pasig City
Phone: (632) 656-2461; 914-7032
Fax: (632) 656-3303

PASAY
2241 C.K.Sy Bldg., Taft Ave.
Pasay City
Phone: (632) 551-5833; 836-7109
Fax: (632) 551-5830

PASAY - MALIBAY
Unit E, J&B Building 641 Epifanio
Delos Santos Ave. (EDSA)
Malibay, Pasay
Phone: (632) 845-0764; 843-1172
Fax: (632) 622-8158

PASIG BLVD - KAPITOLYO
G/F Unit 4 Elements on
Rosemarie Bldg. Pasig Blvd. cor.
Rosemarie Street, Pasig City
Phone: (632) 234-0607; 500-6415
Fax: (632) 234-0608

PASO DE BLAS
Paso de Blas Road cor. P. Santiago St.
Barangay Paso de Blas
Valenzuela City
Phone: (632) 292-3575; 292-4136
Fax: (632) 293-1933

PATERNO - QUIAPO
707 Paterno St., Barangay 307
Quiapo, Manila
Phone: (632) 310-5217; 354-9670
Fax: (632) 354-9695

PEDRO GIL - PACO
1077 Pedro Gil St. Paco, Manila
Phone: (632) 498-1952;
354-5141; 498-1952
Fax: (632) 354-3239

QUINTIN PAREDES
G/F Downtown Center Bldg.
Quintin Paredes St.
Binondo, Manila
Phone: (632) 522-8039; 522-0871
Fax: (632) 241-7123

OUR BRANCHES

RETIRO
No. 84 Units A & B N.S.
Amoranto Avenue, Brgy. Salvacion
La Loma, Quezon City
Phone: (632) 711-2538; 625-8213
Fax: (632) 711-2175

ROOSEVELT
Sun Square Bldg.
323 Roosevelt Ave., Brgy. San Antonio
San Francisco Del Monte, Quezon City
Phone: (632) 411-6345; 376-1426
Fax: (632) 376-1135

SALCEDO VILLAGE - MAKATI CITY
Unit GDA-1, LPL Center
130 L.P. Leviste St.
Salcedo Village, Makati City
Phone: (632) 550-2482
Fax: (632) 550-2480

SAMSON ROAD
117 D & E Samson Road
Caloocan City
Phone: (632) 310-9068;
332-8506; 332-8971
Fax: (632) 332-9495

SUCAT - PARAÑAQUE
Unit B-10-A JAKA Plaza Mall
A. Santos Ave., Sucat, Paranaque
City
Phone: (632) 552-2548; 501-6247
Fax: (632) 552-2547

THE FORT
Units 104-105 Forbeswood Towers
Forbestown Center Rizal Drive cor.
Burgos Circle, Bonifacio Global City
Taguig City
Phone: (632) 856-6653; 856-6654
Fax: (632) 856-6652
DL: (632) 556-3206 (Treasury)

TIMOG ROTONDA
A.A. Tanco Bldg. #55 Timog Ave. cor.
Tomas Morato Ave.
Brgy. South Triangle, Quezon City
Phone: (632) 950-6003; 441-0895
Fax: (632) 376-9530

VALENZUELA
215 McArthur Highway
Karuhatan, Valenzuela City
Phone: (632) 443-8113;
443-8118; 292-3296
Fax: (632) 443-9030

WEST AVENUE
Unit 102, West Avenue Strip,
No. 53 West Ave., Brgy. Paltok,
Quezon City
Phone: (632) 709-7109; 411-0355
Fax: (632) 709-7110

LUZON BRANCHES

ANGELES
Lot 5 Blk. 1 McArthur Highway
Angeles City
Phone: (045) 626-2088; 626-2089
Fax: (045) 626-2087

ANTIPOLO
Units 3 & 4 Megathon Bldg.
Circumferential Road
Brgy. San Roque, Antipolo City
Phone: (632) 697-3054; 630-5186;
697-3051; 630-0750
Fax: (632) 697-3018

ANTIPOLO - MASINAG
Unit 104 G/F Rikland Centre
Marcos Highway
Mayamot, Antipolo City
Phone: (632) 250-2135
234-2731; 654-6654
Fax: (632) 654-6034

BAGUIO CITY
G/F CTTL Bldg.
Abanao Ext., Baguio City
Phone: (074) 447-2692;
447-2694; 424-4146
Fax: (074) 447-2693

BALANGA
Don Manuel Banzon Avenue
Balanga City, Bataan
Phone: (047) 237-1136
Fax: (047) 237-1137

BALIUAG
B.S. Aquino Ave.
Bagong Nayon
Baliwag, Bulacan
Phone: (044) 673-5216
Fax: (044) 766-3485

BATANGAS
Cifra Plaza, No. 114 Rizal Ave.
corner P. Zamora Street
Barangay 16, Batangas City
Phone: (043) 702-1162; 702-2385
Fax: (043) 425-0053

BENGUET - LA TRINIDAD
KM 5, La Trinidad, Benguet
Phone: (074) 422-9792;
422-9795; 619-0261
Fax: (074) 422-97-94

BINAKAYAN
Tirona Highway, BInakayan
Kawit, Cavite
Phone: (046) 434-7455; 434-7992
Fax: (046) 434-9009

BIÑAN - LAGUNA
G/F S.A.P. Building
5230 National Highway
Brgy. San Vicente
Biñan City, Laguna
Phone: (049) 511-9200;
576-0209; 576-0256
Fax: (049) 511-3226

BOCAUE
Mac Arthur Highway, Brgy. Wakas
Bocaue, Bulacan
Phone: (044) 233-3615
Fax: (044) 248-6103

CABANATUAN
Paco Roman St.
Cabanatuan City, Nueva Ecija
Phone: (044) 940-1470;
464-7417; 464-7411
Fax: (044) 940-1491

CAINTA
Unit B5 and B6, The Avenue
Felix Ave., Barangay San Isidro
Cainta, Rizal
Phone: (632) 645-6631; 647-5622
Fax: (632) 681-1658

CALAMBA
G/F Unit 2 Kim-Kat Annex Bldg.
National Highway, Parian
Calamba City, Laguna
Phone: (049) 508-0059
Fax:/Manila Line: (632) 420-8207

CALAPAN
AST Tolentino Building, J. P. Rizal St.
Brgy. San Vicente East
Calapan City, Oriental Mindoro
Phone: (043) 459-0015
Fax:(043) 288-1082

CANDON - ILOCOS SUR
G/F BZ Building
#15 National Highway
Barangay San Isidro
Candon City, Ilocos Sur
Phone: (077) 604-0172
Fax:(077) 604-0171

CAUAYAN
Maharilika Highway
Brgy. San Fermin
Cauayan City, Isabela
Phone: (078) 652-0293;
652-0294; 260-0032
Fax:(078) 652-0301

CARMONA - CAVITE
Units F & G, Jupan C. Lim Building
Governor's Drive, Brgy. Bancal
Carmona, Cavite
Phone: (046) 460-5708
Fax: (046) 460-5706

OUR BRANCHES

DAGUPAN
Rizal St., Dagupan City, Pangasinan
Phone: (075) 523-4781; 523-4701
Fax: (075) 523-4732

DASMARIÑAS- CAVITE
Unit G2 Annie's Plaza Dasma
Barangay San Agustin I
Dasmariñas City, Cavite
Phone: (046) 431-7368; 431-4926
Fax: (046) 431-7564

DINALUPIHAN
No. 33 Rizal St., Dinalupihan, Bataan
Phone: (047) 481-1093; 481-5203
Fax: (047) 636-1118

GAPAN
Tinio St., Brgy. San Vicente
Gapan City, Nueva Ecija
Phone: (044) 486-0893
Fax: (044) 486-2437

GENERAL TINIO
Poblacion Central (Papaya)
Gen. Tinio, Nueva Ecija
Phone: (044) 958-2879; 958-2877
Fax: (044) 958-3001

IMUS
Aguinaldo Highway
Tanzang Luma, Imus, Cavite
Phone: (046) 472-3664; -472-3663
Fax/Manila Line: (632) 529-8630

IRIGA CAMARINES SUR
Highway 1 corner Violeta St.
San Miguel, Iriga City
Phone: (054) 299-7472
Fax: (054) 299-7471

KAWIT
Gregoria St., Poblacion
Kawit, Cavite
Phone: (046) 484-5905; 484-7014
Fax: (046) 484-4997

LA UNION
G/F Virginia Bldg. Quezon Ave. cor.
Flores St., Dominion Bus Terminal
National Highway
San Fernando City, La Union
Phone: (072) 242-3836;
242-0210; 242-0372
Fax:(072) 242-0350

LAOAG
G/F Laoag Allied Marketing Bldg.
Barangay 19, J. P. Rizal St.
Laoag City
Phone: (077) 772-3027; 777-3042
Fax: (077) 772-3041

LEGAZPI CITY
D' Executive Building, Rizal St.
Barangay Tinago, Legazpi City, Albay
Phone: (052) 480-8595
Fax: (052) 480-2815

LIMAY
National Road Brgy. Reformista
Bernabe Subdivision, Limay Bataan
Phone: (047) 244-4072
Fax: (047) 633-9128

LIPA CITY
Units 1, 2, 3 & 4 Trinity Business
Center Ayala Highway
Barangay Balintawak
Lipa City, Batangas
Phone: (043) 455-1020
Fax: (043) 981-0056

LUCENA CITY
Quezon Avenue, Lucena City
Phone: (042) 797-1839; 322-0086
Fax: (042) 797-1838

MALOLOS
G/F Unit 4 & 5 DJ Paradise Hotel
McArthur Highway, Barangay Dakila
Malolos City, Bulacan
Phone: (044)794-6254
Business phone: 0917-554-4584

MEYCAUAYAN
Medical Plaza Bldg.
McArthur Highway, Banga
Meycauayan, Bulacan
Phone: (044) 769-6327; 840-4855
Fax: (044) 769-6329

MOLINO, BACOOR
SolaGrande Centre
Molino Business Centre
Molino Road, Molino 2
Bacoor, Cavite
Phone: (046) 416-3832; 416-3827
Fax/Manila Line: (632) 512-0386

MUZON
807 Luwasan Muzon
City of San Jose del Monte, Bulacan
Phone: (044) 760-4703; 760-4709
Fax: (044) 760-4711

NAGA
Unit C G/F CBD Plaza Hotel
Ninoy and Cory Ave., Central
Business District II Triangulo
Naga City
Phone: (054) 473-6303
Fax: (054) 473-6309

OLONGAPO
2420 Rizal Avenue Brgy. East
Bajac-Bajac Olongapo City
Phone: (047) 222-9951
Fax: (047) 222-9950

ORTIGAS AVE. EXTENSION - CAINTA
G/F Crospoint Commercial Area
Resta 2, Ortigas Ave. Ext.,Cainta
Junction, Brgy. Sto. Domingo
Cainta, Rizal
Phone: (632) 997-2251; 941-4145
Fax: (632) 997-2557

PANGASINAN - LINGAYEN
17 Avenida Rizal West
Barangay Poblacion
Lingayen, Pangasinan
Phone: (075) 633-2880; 206-0314
Fax: (075) 633-2879

PUERTO PRINCESA, PALAWAN
New Carlos Building
271 Rizal Avenue, Central Business
District, Maningning
Puerto Princesa City, Palawan
Phone: (048) 433-0060
Fax: (048) 433-0049

SAN FERNANDO
Hyatt Garden Bldg.
McArthur Highway, Dolores
City of San Fernando, Pampanga
Phone: (045) 961-0523; 961-1854
Fax: (045) 961-0524

SAN PABLO
Lynderson Building, Lopez Jaena St.
San Pablo City, Laguna
Phone: (049) 521-1158; 521-1121
Fax: (049) 300-0149

SAN PEDRO - LAGUNA
Alex Building, National Highway
Barangay Poblacion
San Pedro, Laguna
Phone: (632) 843-4098; 843-4099
Fax: (632) 808-7352

SANTIAGO
BDV Building, City Road
Santiago City, Isabela
Phone: (078) 258-0073;
258-0070; 305-3068
Fax: (078) 305-3079

SBMA - SUBIC
Unit 1-1 and 1-2
Subic Creative Center Bldg.
Lot C-5A, Block C, Manila Avenue
Corner Dewey Avenue, Subic
Commercial and Light Industrial
Park, Central Business District, Subic
Bay Freeport Zone
Phone: (047) 250-3571
Fax: (047) 250-3570

SORSOGON
Chiang Kai Shek School Building
Magsaysay Avenue, Sorsogon City
Phone: (056) 421-6493
Fax: (056) 421-6492

STA. MARIA
Angelica Bldg. Gov. F. Halili Ave.
Bagbaguin, Sta. Maria, Bulacan
Phone: (044) 288-2713; 815-3983
Fax/Manila Line: (632) 299-2713

STA. ROSA
#100 Balibago along
National Highway cor.
Roque Lasaga St.
Balibago, Sta. Rosa, Laguna
Phone: (049) 534-5622; 837-2324
Fax/Manila Line: (632) 520-8117

SUBIC - ZAMBALES
No. 0025 National Highway
Calapandayan, Subic, Zambales
Phone: (047) 232-1976
Fax: (047) 306-5122

TANAUAN BRANCH
Jose P. Laurel Avenue
Barangay Poblacion, Tanauan City
Phone: (043) 702-7409; 702-7407
Fax: (043) 406-5006

TARLAC
G/F Que Kian Juat Building
F. Tanedo Street, Brgy. San Nicolas
Tarlac City
Phone: (045) 925-3302
Fax: (045) 925-3298

TARLAC - PANIQUI
G/F Unit 8, Green Field Building
Zamora St., Poblacion Sur
Paniqui, Tarlac
Phone: (045) 606-1085; 606-1190
Fax: (045) 491-8508

TAYTAY
Brgy. San Juan, Taytay, Rizal
Phone: (632) 234-2580 ; 218-3871
Fax: (632) 234-1899

TRECE MARTIRES - CAVITE
VPG Building, Tanza - Trece Martires
Road, Brgy. San Agustin, Trece
Martires City, Cavite
Phone: (046) 416-7605; 416-7605
Fax: (046) 416-7606

TUGUEGARAO
#6 Rizal St., Barangay 8
Tuguegarao City
Phone: (078) 304-0243;
844-0292; 844-0496
Fax: (078) 501-1049

URDANETA
Unit 1, The Pentagon - GNC Building
McArthur Highway, Nancayasan
Urdaneta, Pangasinan
Phone: (075) 656-3012; 656-2108;
Fax: (075) 568-5876

OUR BRANCHES

VIGAN
Luisa Trading Building,
Quezon Ave. cor. Salcedo St., Brgy. 3
Vigan City, Ilocos Sur
Phone: (077) 673-0067; 250-2659
Fax: (077) 604-0282

VISAYAS BRANCHES

BACOLOD
Philamlife Bacolod Bldg.
Lacson St. cor. Galo Street
Bacolod City
Phone: (034) 435-5745;
435-5734; 435-5683
Fax: (034) 435-5744

BORACAY
Barangay Balabag
Boracay Island, Malay, Aklan
Phone: (036) 506-3046; 506-3051
Fax: (036) 663-0019

CEBU - BANILAD
A. S. Fortuna St, Banilad
Mandaue City, Cebu
Phone: (032) 268-7340
Fax: (032) 268-7347

CONSOLACION - CEBU
Highway Consolacion
(Fronting Cebu Home Builders)
Barangay Cansaga
Consolacion Cebu
Phone: (032) 236-3476; 236-4299
Fax: (324) 423-0514

DOWNTOWN - CEBU
G/F Lianting Bldg.
130 F. Gonzales Street, Cebu City
Phone: (032) 255-6607;
253-2518; 255-6490
Fax: (032) 253-2366

CEBU - TALISAY
Door 3, Rosalie Building
Gaisano Fiesta Mall
Tabunok Cebu South Road
(aka Tabunok Highway)
Talisay City, Cebu
Phone: (032) 520-7852; 520-7853
Fax: (032) 505-9048

DUMAGUETE
Ground Floor C&L Suites Inn
485 Perdices Street cor. Pinili Street
Barangay Poblacion 3
Dumaguete City
Phone: (035) 400-4800;
421-1474; 522-2709
Fax: (035) 522-2710

CEBU - ESCARIO
Unit G-08, Capitol Square
Escario St., Cebu City
Phone: (032) 232-0146; 232-0145
Fax: (032) 232-0147

ILOILO
25 Quezon Street, Iloilo City
Phone: (033) 336-5933;
336-5250; 336-9066
Fax: (033) 336-9472

KALIBO
Roxas Avenue, Poblacion
Kalibo City, Aklan
Phone: (036) 268-3538;
390-0040; 390-0039
Fax:(036) 500-7253

LAPU-LAPU CITY
G/F AMCO Building
M. L. Quezon National Road
Pajo, Lapu-Lapu City, Cebu
Phone: (032) 495-2831;
236-3018 ; 495-8231
Fax: (032) 238-8590

MANDAUE
Unit 1-2 Wireless Plaza Bldg.
H. Cortes Avenue cor. Hi-way Seno
Subangdaku, Mandaue City
Phone: (032) 345-4462;
345-2657; 345-5274; 345-1520
Fax: (032) 345-2657

ROXAS CITY
G/F SJS Building, San Roque St. Ext.
Barangay 8, Roxas City, Capiz
Phone: (036) 522-1980
Fax: (036) 620-3470

TACLOBAN
Zamora St., Tacloban City
Phone: (053) 832-0002;
832-0065; 526-0616
Fax: (053) 832-0074

TAGBILARAN
EB Gallares Building
C. P. Garcia Avenue
Tagbilaran City, Bohol
Phone: (038) 411-0837; 411-0831
Fax: (038) 411-0832

MINDANAO BRANCHES

BUTUAN
Montilla Boulevard cor. T. Calo St.
Butuan City, Agusan Del Norte
Phone: (085) 815-0512
Fax: (085) 815-0513

CAGAYAN DE ORO
Lapasan Highway corner
Camp Alagar Cagayan de Oro City
Phone: (088) 231-6682;
880-5280; 323-1735
Fax: (088) 880-5281

CAGAYAN DE ORO - COGON
ALLA Inc. Building, JR Borja St.
(near corner Corrales Ave.)
Barangay 32, Cagayan De Oro City
Misamis Oriental
Phone: (088) 220-2989; 323-1625
Fax: (088) 880-2990

DAVAO - BAJADA
G/F DCCCII Bldg., JP Laurel Ave.
Bajada, Davao City
Phone: (082) 222-5146;
300-4386; 222-2316
Fax: (082) 300-4385

DAVAO - LANANG
Fuji One Building
KM. 7 Lanang, Davao City
Phone: (082) 305-4621;
234-2879; 234-2933
Fax: (082) 300-8876

DAVAO - C.M. RECTO
JRL Building 107 C.M. Recto Ave.
Brgy. 38-D, Davao City
Phone: (082) 224-3294
Fax: (082) 224-3969

DAVAO - PANABO
Wharf Road
Brgy. Sto. Niño, Poblacion
Panabo City, Davao del Norte
Phone: (084) 629-0060; 628-4005
Fax: (084) 629-0050

DAVAO - SALES
Door 7 & 8 JM Bldg.
Governor Sales St., Davao City
Phone: (082) 222-4951;
222-4281; 222-4452
Fax: (082) 224-2597

DAVAO - TORIL
Gaisano Grand Mall Toril
Unit GL 8B & GL 9, Saavedra St.
Toril, Davao City
Phone: (082) 293-9005;
824-1480 ; 324-1472
Fax: (082) 285-9154

DIPOLOG CITY
No. 331 P. Burgos St.
(near corner Rizal Ave.)
Dipolog City, Zamboanga Del Norte
Phone: (065) 212-1424;
908-1576; 908-1700
Fax: (065) 212-1425

GENERAL SANTOS CITY
GSC SunCity Suites
B-1-03 & B-1-04 National Highway
Lagao, General Santos City
Phone: (083) 552-0591; 301-6015
Fax: (083) 301-6014

GENERAL SANTOS - SANTIAGO BLVD
Santiago Boulevard
Barangay Dadiangas South
General Santos City
Phone:(083) 552-5712
Fax:(083) 552-2209

ILIGAN BRANCH
Doromal Building
Quezon Ave. Extension
Brgy. Villaverde, Iligan City
Phone: (063) 222-3971;
302-0074; 302-0107
Fax: (063) 222-4197

OZAMIS
G/F Insular Life Bldg.
Don Anselmo Bernad Ave.
(National Highway)
cor. Jose Abad Santos St.
Ozamis City, Misamis Occidental
Phone: (088) 545-0985;
545-0987; 319-0309
Fax: (088) 319-0308

SURIGAO
Diez St., Barangay Taft, Surigao City,
Surigao del Norte
Phone: (086) 310-0346

TAGUM CITY, DAVAO
Roxas St. corner Osmeña St.
Tagum City, Davao
Phone: (084) 216-1726 ; 216-1724
Fax: (084) 216-1726

ZAMBOANGA
Wee Agro Building Veterans Ave.
Zamboanga City
Phone: (062) 955-2201; 955-1024
Fax: (062) 955-1047

AMY Foundation Celebrates its 14th Anniversary

The AMY Foundation celebrated its 14th Anniversary on December 8, 2017 which coincides with the feast of the Solemnity of the Immaculate Conception, with a Holy Mass attended by the Founding Chairman of the Foundation and PB B Chairman Emeritus Amb. Alfredo M. Yao, PBB Chairman of the Board Mr. Francis T. Lee, Executive Director Ms. Linalyn D. Gabrido, Chief Accountant Ms. Roselle M. Baltazar, Coordinator for Volunteers Ms. Aleli M. Osumo, and officers of the Foundation.

AMY Foundation Year End Meeting for 2017

(L-R) AMY Foundation Chairman Alfredo M. Yao, President Antonio I. Panajon, Program Manager Ruth A. Tamayo, Executive Director Lyn D. Gabrido, and Treasurer Leni G. Ecat.

AMY Foundation Christmas Parties

It's the season of giving. As the holidays approach, many people look for ways to help the needy. There are food drives, school fundraisers and end-of-year donation solicitations galore, and it can be hard to decide where to direct one's generosity.

The AMY Foundation in partnership with Tambunting Youth Association (TYM) came up with a fun but fruitful way to help the less fortunate children in Caloocan area by giving Christmas gifts for them. Many kids would not get any gifts on Christmas morning if it were not for the support of their community.

For this year's Christmas Party, the AMY Foundation held two (2) parties for the kids in Tambunting St., Sta. Cruz Manila on December 21, 2017, wherein 150 kids from Barangays 373 and 374 joined, and on December 22, 2017 wherein 50 kids from Barangay 121 participated.

This project is a strong manifestation of AMY Foundation's desire to continuously widen the scope of its beneficiaries especially in the areas where help and attention are mostly needed.

Orientation for New AMY Scholars

The AMY Foundation held an orientation for the new AMY scholars at the Philippine Business Bank's Training Room on November 7, 2017. The foundation's Vision, Mission and Goals were explained further to the newly accepted scholars from the Pamantasan ng Lungsod ng Maynila, ICCT Colleges, Our Lady of Fatima University, University of Caloocan City and St. Claire College of Kalookan.

Current scholars from the Polytechnic University of the Philippines also attended the orientation. The first meet and greet provides the perfect opportunity for the new and existing scholars to know their fellow scholars as one family.

The orientation highlighted the AMY Foundation Scholarship Program Policy and the numerous activities of the Foundation the scholars may be interested in.

Present during the orientation were Executive Director Lyn Gabrido, Chief Accountant Roselle Baltazar, Coordinator for Volunteers Aleli Osumo, Treasurer Leni Ecat, and officers Jenny Vana and Ruth Tamayo.

Balik Eskuwela 2017

The AMY Foundation partnered with Couples For Christ (CFC), a Catholic movement intended for the renewal and strengthening of Christian family life which started in Manila on 1981, North A Sector in giving basic school supplies to the Kinder and the Grade 1 students of the community which CFC North A Sector covers.

The Balik Eskuwela Project is one of the Foundation's programs that directly deliver school supplies to students in need. The 200 students received school bags containing notebooks, pad papers, pencils, crayons, and other school supplies.

The Balik Eskuwela Project was held at the CFC North A Mission Center Amparo Subdivision, Caloocan City on May 31, 2017. This program is dedicated to providing those students in need of school supplies with the tools necessary to be successful in the classroom.

ICCT Partner-School Visit

(L-R) ICCT AVP Finance Ms. Mary Jane Sumalenog, AMY Foundation Finance Manager Ms. Jenny V. Magbuhos, AMY then scholar-applicants during the visit: Manilyn P. Cuadera and Jessa May M. Avila both BS Accountancy students, AMY Foundation Program Manager Ms. Ruth A. Tamayo, and ICCT AVP Registrar Ms. Nenita Vinluan.

The representatives of the AMY Foundation visit partner schools, like the ICCT Colleges to effectively engage with the scholars and school partners to a meaningful, reciprocal and long-term relationship.

The AMY Foundation representatives conduct interviews to scholar-applicants whether enrolled in partner and non-partner schools of the Foundation. After the visitation, the newly accepted scholars are required to attend the orientation as part of the Foundation's program.

AMY Foundation has been in partnership with the ICCT Colleges since 2004.

Kamustahan with PUP

AMY Foundation 'KUMUSTAHAN' with AMY scholars enrolled in Polytechnic University of the Philippines (PUP) on Sept. 11, 2017.

PNU Annual Recognition and Thanksgiving Program for Scholarship Donors

The AMY Foundation was again recognized by the Philippine Normal University (PNU) as one of their partners in providing scholarships to the academically bright but financially challenged students of PNU.

The recognition of all scholarship donors and student benefactors of PNU was held at the Geronimo Pecson Auditorium of PNU on March 22, 2017.

The AMY Foundation scholars, the AMY Foundation representatives - Ms. Luningning T. Ramos and Ms. Ruth Tamayo, CSR Officer attended the program rites. The scholars expressed their gratitude to the foundation as they anticipate their upcoming graduation.

The AMY Foundation has been in partnership with PNU since 2007. Currently, AMY Foundation has ten (10) slots under its roster of scholars for PNU.

CORPORATE GOVERNANCE

A. OUR CORPORATE GOVERNANCE

Philippine Business Bank, Inc. (PBB) believes that corporate governance is a system of rules, practices and process by which the Bank is directed and controlled. The Board of Directors and management set the tone at the top through directives and policies that is being communicated to all employees. A Board approved Corporate Governance Manual has been established that guide the Bank in the attainment of its corporate goals.

The Bank is a publicly listed institution which is being regulated and supervised by the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC). The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791), Corporation Code of the Philippines, and other laws such as the Anti-Money Laundering Act of 2001 (Republic Act No. 9160), as amended.

B. SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

Philippine Business Bank believes in selecting the right candidates based on two (2) criteria; 1) the qualifications of the candidate and 2) the hiring standards of the Bank. There shall be no discrimination as to sex, religion, creed, race or natural origin. It shall be the policy of the Bank to offer employment strictly on the basis of the results of the Bank's qualification standards, personal interviews and other standard requirements of the position being applied for. The Bank does not hire personnel simply on the basis of referral by an employee, any influential party, or valued client.

The candidate shall be hired with the end view of a fruitful and mutually beneficial working relationship with Philippine Business Bank and subject to performance and operational requirements.

The Human Resources Group (HRG) shall be responsible in the efficient implementation of this function. All Group/Branch Heads shall coordinate and course their staffing requirements with HRG.

The recruitment process generally begins when HRG receives the duly approved Personnel Requisition Form (PRF). Lead time of thirty (30) days shall be given to HRG to be able to source for applicants. The thirty (30) days would include testing, interview with concerned officers and endorsement of the Approval for Hiring Sheet up to the highest approving officer. For difficult positions, lead time for HRG to fill in the vacancy is between 45-60 days. However, the indicated HR response time is also dependent on the response of the recipient Centers/ Units in deciding the hiring of the candidate that has been endorsed/ submitted by HRG.

Two (2) sources from which candidates are obtained:

1. Internal Recruitment - internal sourcing is recruitment making use of job posting in the bulletin board and announcement via intranet email by HRG. Candidates may come from:
   a. Within the Group/Region/Branch
   b. Another Group/Region/Branch
   c. Contractual/project staff
2. External Recruitment – external sourcing is hiring from the outside (through the use of the Bank's website, ad placements in newspapers, walk-ins, campus recruitment, referrals from internal/external parties or placement agencies). This is resorted to when internal sourcing has been exhausted.

HRG shall endeavor to fill-up vacancies as they occur giving priority to internal qualified candidates (employees). External hiring shall be considered when none of the present employees are qualified or have applied for the vacancy.

The applicant's file shall be forwarded to the requisitioning unit prior to the interview schedule. The file should contain the following documents:

1. Duly accomplished Application Form
2. Applicant's resume
3. Interview Evaluation Sheet containing the evaluation and recommendation made by the interviewers

The applicant senior officer (AVP and up) should be interviewed by the following:

1. Human Resources Group Head;
2. Group Head concerned as applicable;
3. President & CEO;
4. Vice-Chairman;
5. Chairman of the Board.

Note: The President & CEO may or may not interview candidate for selection. In such cases, the interview results of the Vice-Chairman and Chairman will suffice.

The Corporate Governance/Nomination Committee shall review and evaluate the qualifications of all persons nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors. The Board of Directors shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance. The Bank may also utilize the recommendations from professional firms such as the Institute of Corporate Directors (ICD).

C. BOARD'S OVERALL RESPONSIBILITY

The Board of Directors is primarily responsible for defining the bank's vision and mission. The Board of Directors has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework.

D. MAJOR ROLE AND CONTRIBUTION OF THE CHAIRMAN OF THE BOARD

The Chairman of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall:

1. Ensures that the meeting agenda focuses on strategic matters, including discussion on risk appetites and key governance concerns;
2. Ensures a sound decision making process;
3. Encourages and promote critical discussion;
4. Ensures that views can be expressed and discussed within the decision-making process;
5. Ensures that members of the board of directors receives accurate, timely, and relevant information;
6. Ensures the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
7. Ensures conduct of performance evaluation of the board of directors at least once a year.

E. BOARD COMPOSITION

PBB has been approved by the SEC to have ten (10) elected directors, two (2) of which are Independent Directors, per its Amended Articles of Incorporation dated February 27, 2013.

The Bank will increase its Independent Director to four (4) as required per BSP Circular No. 969 series of 2017.

Name of Director	Type of Directorship	If nominee, Identify the Principal	Number of years served as director	Number of direct/indirect shares held	Percentage of Shares to Total Outstanding Shares
Francis T. Lee	Non-Executive	Principal	17	22,087,500	3.69%
Jeffrey S. Yao	Non-Executive	Principal	18	1,350,446	0.22%
Rolando R. Avante	Executive	Principal	6	330,040	0.06%
Danilo A. Alcoseba	Non-Executive	Principal	1	100	-
Roberto A. Atendido	Non-Executive	Principal	11	90,625	0.02%
Paterno H. Dizon	Independent	Principal	11	109,465	0.02%
Honorio O. Reyes-Lao	Non-Executive	Principal	7	212,499	0.04%
Benjamin R. Sta.Catalina, Jr.	Independent	Principal	5	46,965	0.01%
Amador T. Vallejos, Jr.	Non-Executive	Principal	20	32,146	0.01%
Leticia M. Yao	Non-Executive	Principal	8	1,400,446	0.23%

CORPORATE GOVERNANCE

F. BOARD-LEVEL COMMITTEES

To aid the Bank in complying with the principles of good governance, the Board constitutes the following Committees:

1. **Audit Committee**

The audit committee provides oversight over the bank's financial reporting policies, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. It is responsible for the setting-up of the internal audit department and the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. It monitors and evaluates the adequacy and effectiveness of the internal control system of the Bank.

The committee is composed of three (3) qualified non-executive directors and two (2) independent directors including the Chairman. The Chairman of the audit committee is not the Chairman of the Board of Directors or any of the other board-level committees.

2. **Corporate Governance / Nomination Committee**

The Corporate Governance Committee is tasked to assist the Board in the performance of its corporate governance responsibilities by reviewing and evaluating the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors. It also ensures compliance with and proper observance of corporate governance principles and practices as required by the regulatory bodies.

It also enhances the corporate governance standards of the Bank by identifying, addressing and working towards its ASEAN Corporate Governance scorecard (ACGS).

The committee is composed of five (5) members of the Board of Directors who shall be non-executive directors and independent directors, including the chairman.

3. **Executive Committee**

This Committee has been delegated by the Board of Directors with some of its powers and responsibilities as provided for in the by-laws, including but not limited to the supervision of other board committees and subject to the limitations and restrictions as may be imposed by the Board of Directors.

The Executive Committee is composed of three (3) members from the Board of Directors.

4. **Manpower, Compensation and Remuneration Committee**

This Committee is responsible for the establishment of a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors. They also provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the bank's culture, strategy and control environment.

The Manpower, Compensation and Remuneration Committee is composed of three (3) members from the Board of Directors.

5. **Related Party Transaction Committee**

The Related Party Transaction (RPT) Committee evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified. It is composed of six (6) members of the Board of Directors, two (2) of whom are independent directors including the chairman.

In case a member has conflict of interest in a particular RPT, he should refrain from evaluating that particular transaction.

6. **Risk Oversight Committee**

The Risk Oversight Committee (ROC) is responsible for the development and oversight of the Bank's Enterprise Risk Management system to ensure its functionality and effectiveness. The Committee is composed of five (5) members of the BOD, who are non-executive directors and independent directors, including the chairman. The members of the Risk Oversight Committee possessed a range of expertise as well as adequate knowledge of the Bank's risk exposures to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It oversees the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

7. **Trust Committee**

The Trust Committee is a special committee which reports directly to the Board of Directors and is primarily responsible for overseeing the fiduciary activities of the Bank.

The Trust Committee is composed of five (5) members including the (1) president OR ANY SENIOR OFFICER OF THE BANK AND (2) the trust officer.

G. DIRECTORS' ATTENDANCE

Name of Directors	Board (12)		Audit (12)		Corporate Governance (10)		Executive (36)	
	Attended	%	Attended	%	Attended	%	Attended	%
Francis T. Lee	12	100%					36	100%
Jeffrey S. Yao	11	91.67%	11	91.67%			36	100%
Rolando R. Avante	12	100%					36	100%
Danilo A. Alcoseba	11	91.67%	12	100%	9	90%		
Roberto A. Atendido	10	83.33%	11	91.67%	10	100%		
Paterno H. Dizon	11	91.67%	11	91.67%	8	80%		
Honorio O. Reyes-Lao	12	100%						
Benjamin R. Sta. Catalina, Jr.	10	83.33%	11	91.67%	10	100%		
Amador T. Vallejos, Jr.	10	83.33%	10	83.33%	9	90%		
Leticia M. Yao	9	75%						

Name of Directors	Manpower & Remuneration (3)		Related Party Transactions (8)		Risk Oversight (12)		Trust (4)	
	Attended	%	Attended	%	Attended	%	Attended	%
Francis T. Lee	3	100%					4	100%
Jeffrey S. Yao	3	100%			7	58.33%		
Rolando R. Avante	3	100%					4	100%
Danilo A. Alcoseba			7	87.5%	10	83.33%		
Roberto A. Atendido			8	100%	7	58.33%		
Paterno H. Dizon			6	75%	8	66.67%		
Honorio O. Reyes-Lao			5	62.5%	7	58.33%	4	100%
Benjamin R. Sta. Catalina, Jr.			8	100%	11	91.67%		
Amador T. Vallejos, Jr.	2	66.67%	5*	83.33%	11	91.67%		
Leticia M. Yao							3	75%

**Appointed as member in June 2017*

CORPORATE GOVERNANCE

H. CHANGES IN THE BOARD OF DIRECTORS

There was no change in the composition of the board of directors for the year 2017.

I. EXECUTIVE OFFICERS/SENIOR MANAGEMENT

Name of Officer	Position	Relevant Qualifications/Experience	Age	Nationality
Rolando R. Avante	President & CEO	Mr. Avante graduated from De La Salle University with a degree in BS Commerce Major in Marketing Management. He has taken MBA units also in DLSU. He has 30 years of banking experience. Also, he attended the following seminars/trainings: Seminar on Data Privacy Act; International Financing Reporting Standards 9 (IFRS 9); SEC-PSE Corporate Governance Forum 2016; AMLA for Board of Directors and Senior Officers; 2015 Distinguished Corporate Governance Speaker Series; 2012 ACI Phils. Annual Convention in Boracay.	59	Filipino
Peter N. Yap	Chief Marketing Officer/Retail Banking Head	Mr. Yap is a graduate of BS Chemical Engineering at the University of San Carlos. Mr. Yap is a seasoned banker with 40 years of banking experience. He underwent Seminar on Data Privacy Act and International Financing Reporting Standards 9 (IFRS 9).	70	Filipino
Joseph Edwin S. Cabalde	Treasurer	Mr. Cabalde is a graduate of BSC Accounting from the University of Santo Tomas. He has 17 years of banking experience. He attended Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), Corporate Governance Seminar, AMLA Seminar for Board of Directors and Senior Officers, 2012 ACI Phils. Annual Convention in Boracay and Risk Awareness Seminar.	48	Filipino
Consuelo V. Dantes	Head-Human Resources Group	Ms. Dantes took up BA Economics at the University of the Philippines and had MBA units at De La Salle University. She has 35 years of banking experience. Her trainings include Seminar on Data Privacy Act, Breakfast of Champions and Compliance with Financial Consumer Protection.	55	Filipino
Rosendo G. Sia	Business Development Executive	Mr. Sia finished his BSBA Accounting degree at the University of the East and took up MBA in De La Salle University. A seasoned banker with 38 years' experience, he had attended trainings on Seminar on Data Privacy Act, Corporate Governance Seminar, ERMG Framework Implementation and AMLA for Board of Directors and Senior Officer.	62	Filipino
Agustin E. Dingle, Jr.	Chief Compliance Officer	Mr. Dingle, Jr. is a graduate of Pamantasan ng Lungsod ng Maynila with a degree in BSBA Accounting. He also took up Bachelor of Laws at Manuel L. Quezon University. He is a seasoned banker with 38 years' experience in banking. He attended the following seminars/trainings: Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), Final Workshop for the Money Laundering/ Terrorism Financing (ML/TF) National Risk Assessment (NRA), AMLA Seminar for Senior Officers, Compliance Beyond Borders-Gearing up for the ASEAN Integration, Best Practices in Credit Risk Ratings for Banks, Updated Guidelines on Sound Credit Risk Management, Money Laundering & Terrorist Financing (ML/TF) National Risk Assessment (NRA) Initial Workshop, Enterprise-Wide Risk Management, 2014 ASEAN Corporate Governance Scorecard (ACGS) Workshop for Publicly Listed Companies (PLCs), The Anti-Money Laundering Act of 2001 (as amended) RA 10365, AMLA Risk Rating System and Updates on Circular 706, FATCA – A Path to Cost-Effective and Efficient Compliance Seminar, 7th Biennial Workshop on Strengthening Governance, Risk and Compliance, Seminar Updates on ARRS and RA 10365, 8th Annual Corporate Governance Workshop 2011, Risk Analysis and Management, IFRS-Based Financial Analysis, Internal Credit Risk Ratings and Measurement, Treasury Operations, International Accounting Standards 32 and 39, Compliance: Moving Forward Workshop, Basics of Money Market Introduction to Foreign Exchange, Corporate Governance and Risk Management Program for Bank Directors and Senior Management, Deposit Profitability Analysis, Derivative Transactions.	61	Filipino
Roselle M. Baltazar	Head-Central Operations Group	Ms. Baltazar graduated with a degree in BS Accountancy at Divine World College. She had 23 years' experience in banking. She also attended the following seminars/trainings: TRAIN – Tax Reform for Acceleration and Inclusion, Seminar on Data Privacy Act, Understanding Financial Statement Seminar, International Financing Reporting Standards 9 (IFRS 9), Macros Training for Bankers, Corporate Governance Seminar, Year-end Tax Planning Strategies, AMLA for Board of Directors and Senior Officers, Effective Conversation Fluency, Accounting Profession – Case & Analysis, Local Employee Taxation 101, Ethics and Governance, Detecting Misrepresentations in Financial Reporting, Corporate Governance Seminar for Directors & Senior Officers.	44	Filipino

CORPORATE GOVERNANCE

Felipe V. Friginal	Head-Branch Operations & Control Group	Mr. Friginal is a graduate of Pamantasan ng Lungsod ng Maynila with a degree in BSBA Marketing. He also took MBA units at De La Salle University. With 41 years of banking experience, he had attended various trainings/seminars which include: Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), Corporate Governance Seminar, AMLA for Board of Directors and Senior Officers, Corporate Governance Seminar for Directors & Senior Officers, Risk Awareness Seminar and Internal Credit Risk Rating System Workshop.	63	Filipino
Rodel P. Geneblazo	Head-Consumer Banking Group	Mr. Geneblazao graduated from Polytechnic University of the Philippines with a degree in BS Mechanical Engineering and took up MBA at the University of the Philippines. He has 22 years banking experience. He also attended training/seminar on International Financing Reporting Standards 9 (IFRS 9), AMLA Seminar for Board of Directors and Senior Officers and Corporate Governance Seminar for Directors and Senior Officers.	47	Filipino
Eduardo R. Que	Head-Corporate Banking Group	Mr. Que has a degree in BSC Management of Financial Institutions from De La Salle University and had MBA at Ateneo de Manila University. He has 36 years of banking experience. His trainings/seminars include: Training on Credit Course for Relationship Managers, Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), AMLA Refresher Seminar, AMLA for Board of Directors and Senior Officers, Hedging Treasury Risk with Forward Foreign Exchange Contracts, Updated Guidelines on Sound Credit Risk Management, Corporate Governance Seminar for Directors and Senior Officers, Measuring Indices on Streamlined Credit Process and Workshop on Streamlining the Credit Process.	56	Filipino
Belinda C. Rodriguez	Head-Enterprise Risk Management Group/Data Protection Officer	Ms. Rodriguez is a graduate of Polytechnic University of the Philippines with a degree in BSC Accounting. She also finished her MBA at the Ateneo Graduate School of Business. She has 34 years of banking experience. She attended seminars/trainings on the following: A Regulatory Perspective on Trust Activities, IBM SPSS Training for Researches, Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), BSP Circulars 941 and 855; Corporate Governance Seminar, AMLA for Board of Directors and Senior Officers.	56	Filipino
Jose Maria P. Valdes	Head-Information Technology Group	Mr. Valdes is a graduate of Bachelor of Science in Commerce major in Management of Financial Institutions at De La Salle University and attended a special course of Management Development Program in Asian Institute of Management. He has 36 years of experience in the IT industry. He underwent Seminar on Data Privacy Act and AMLA Orientation.	61	Filipino
Liza Jane T. Yao	Head-General Services	Ms. Yao finished her BS Accountancy degree at De La Salle University. She has 15 years of banking experience. She had attended various trainings/seminars which include: Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), Corporate Governance Seminar, AMLA Seminar for Board of Directors and Senior Officers, Corporate Governance Seminar for Directors & Senior Officers, Credit Analysis and Writing Seminar, Thinking Strategically in Business Game Theory for Managers, AMLA Seminar, Market Reading Seminar, Risk Awareness Seminar, Basic Financial Math Seminar, Loans Packaging & Processing Seminar, Diploma Program in Banking.	47	Filipino
Angeline Ann H. Hwang	Head-Commercial Banking Group	Ms. Hwang took up BS Business Administration at the University of the Philippines. She has 25 years of banking experience. She attended the following seminars/trainings: Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), Corporate Governance Seminar, AMLA for Board of Directors and Senior Officers, Exchange of Ideas on Credit, Asia SME Summit – Build Better Businesses! Build Better Nations, Related Party Transactions, Updated Guidelines on Sound Credit Risk Management, Corporate Governance Seminar for Directors & Senior Officers, AMLA Seminar for Board of Directors and Senior Officers.	67	Filipino
Roberto S. Santos	Legal Counsel	Mr. Santos graduated from University of the East with a degree in Bachelor of Arts and took up Bachelor of Laws in the same university. A seasoned banker with 43 years of experience, he had attended various trainings which include the following: Best Practices in Corporate Housekeeping, Revised ISBP on LC Transactions, A Guide to Mergers and Acquisitions for Banks, Seminar on Data Privacy Act, Corporate Governance Seminar, AMLA for Board of Directors and Senior Officers, Do's & Don'ts in Hiring and Firing Endo Workers, 88th Mandatory Continuing Legal Education (MCLE), Updated Guidelines on Sound Credit Risk Management, Risk Awareness Seminar and Mandatory Continuing Legal Education (MCLE).	69	Filipino
John David D. Sison	Head-Corporate Planning and Investor Relations	Mr. Sison is a graduate of BS Management Engineering from Ateneo de Manila University. He has 4 years of banking experience. He underwent trainings/seminars on Value Investing Program, Seminar on Data Privacy Act, AMLA Seminar for Board of Directors and Senior Officers.	33	Filipino

Miami V. Torres	Head-Credit Management Group	Ms. Torres is a graduate of BSC Accounting from the University of Santo Tomas. She has 34 years of banking experience. Her trainings/seminars include the following: International Financing Reporting Standards 9 (IFRS 9), BSP Circular Nos. 941 and 855, AMLA for Board of Directors and Senior Officers, Conflict Resolution on Credit Issues Between Branches & Lending Units, Customized Seminar on Conflict Management and Resolution of Credit Issues Branches, Lending Units, and Legal Units, Corporate Governance Seminar for Directors & Senior Officers, 19th ASEAN Federation of Accountants (AFA) Conference, Updated Guidelines on Sound Credit Risk Management, Measuring Indices on Streamlined Credit Process, Workshop on Streamlining the Credit Process, Managing Customer Service Seminar, Risk Awareness Seminar and Credit Risk Management Seminar.	56	Filipino
Laurence R. Rapanut	Head-Internal Audit Center	Ms. Rapanut finished her BSBA Accounting degree at the University of the East. With 35 years of banking experience, she had also attended seminars/trainings on the following: Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9) Corporate Governance Seminar, A Regulatory Prospective on Trust Activities & Administration, Change Advocate Committee Session, AMLA Seminar for Board of Directors and Senior Officers, Related Party Transactions, Hedging Treasury Risk with Forward Foreign Exchange Contracts, Updated Guidelines on Sound Credit Risk Management, Update on BSP Trust Audit Seminar, Best Process in Credit Risk Ratings for Banks, Orientation on the Security Features of Renminbi Currency, Briefing on the New Performance Management System, Risk Awareness Seminar, Value at Risk Market Risk Management, Certified Forensic Accounting Program, Triple Treat Seminar, Customer Risk Profiling Seminar, Recent Updates in the Anti-Money Laundering Law, Risk Management and Audit Seminar, The Trust Business, Establishing Your Quality Assessment and Improvement Program, Financial Statement Reporting, Financial Instruments Module 7, Spot Forward and FX Swaps, Interest Rate Swaps, Accounting for Bonds and Treasury Bills, Basics of Fixed Income Securities, Financial Math on Money Market and Bonds, Risk-Based Audi Methodology, Tools & Techniques for the Internal Audit Staff, Information Security Beyond the Basics, Credit Risk Management Seminar, Basic Credit Analysis Seminar, 4th Special Real Estate Symposium, Taxation in Banking, Treasury Operations Seminar and Fraud Prevention Detection & Control.	56	Filipino

Teresita S. Sion	Head-Trust & Investment Center	Ms. Sion is a graduate of Philippine School of Business Administration with a degree in BS Business Administration and took up units in MBA at De La Salle University. Ms. Sion has 27 years of banking experience. She had attended the following seminars/trainings: Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), Corporate Governance Seminar, AMLA for Board of Directors and Senior Officers, TOAP Summit 2016, Forum on BSP Interest Rate Corridor System, Corporate Governance Seminar for Directors & Senior Officers, The Next Engines of Growth, BSP Compliance, Trust and Governance Rating Systems, Managing Customer Service Seminar, Beyond SDA: The Search for the Next Trust Engine of Growth, Strengthening Corporate Governance and Risk Management Practices on TOFA & IMA, and Risk Awareness Seminar.	65	Filipino
Judith C. Songlingco	Head-Corporate Affairs Unit	Ms. Songlingco obtained her BSC Marketing Management degree from St. Scholastica's College and holds a post-graduate degree, Masters of Business Administration from the De La Salle University. She has 24 years of banking experience. Her trainings/seminars include: Seminar on Data Privacy Act, Corporate Governance Seminar, AMLA Seminar for Board of Directors & Senior Officers, Situational Leadership, Operational Risk Awareness Seminar, Beyond SDA: The Search for the Next Trust Engine Growth and Risk Awareness Seminar.	45	Filipino

J. PERFORMANCE ASSESSMENT PROGRAM

To ensure that there is consistent application of the principles of good corporate governance as detailed in the Manual of Corporate Governance approved by the Board of Directors, PBB adopted a self-evaluation methodology to evaluate and measure the performance of its Board of Directors as a body, its board committees, the individual directors and senior management. The self-evaluation is conducted every year, the result of which is submitted to the Compliance Office for consolidation and reporting to the Corporate Governance Committee, at least thirty (30) days prior to the yearly Stockholders' Meeting.

K. ORIENTATION AND EDUCATION PROGRAM

Title of Seminar	Date Conducted	Facilitator	Participants
Data Privacy Act Seminar	8 November 2017	ePLDT Enterprise	Members of the Board of Directors and Senior Management
International Financial Reporting System 9 (IFRS 9)	15 June 2017	P&A Grant Thornton	Members of the Board of Directors and Senior Management

L. RETIREMENT AND SUCCESSION POLICY

1. Retirement Plan
   a. Normal Retirement

Retirement Age	Entitlement
60 years of age	100% of final monthly salary x no. of years of service

   b. Early Retirement
      i. Retirement prior to age 60 but after attainment of at least 50 years of age AND completion of at least 10 years of service.
      ii. The officer/employee shall be entitled to and shall be paid an amount computed in accordance with the Normal Retirement Benefit formula.
   c. Late Retirement
      i. Retirement beyond the age of 60 but in no case beyond age 65.
      ii. Officer/employee availment of Late Retirement is on a case-to-case basis subject to Management approval.
      iii. The officer/employee shall be entitled to and shall be paid an amount computed in accordance with the Normal Retirement Benefit formula.
   d. Permanent Total Disability Benefit – 100% of accrued retirement benefit as of date of disability
   e. Death Benefit – 100% of accrued retirement benefit
   f. Separation Benefit

Tenure	% of Accrued Retirement Benefit Payable
Below 10 years	0%
10 to less than 12 years	50%
12 to less than 14 years	60%
14 to less than 16 years	70%
16 to less than 18 years	80%
18 to less than 20 years	90%
20 years and above	100%

The Board of Directors of PBB adopted a retirement policy pursuant to the Securities and Exchange Commission's (SEC's) Code of Corporate Governance Guidelines for Publicly-listed Companies and the Bangko Sentral ng Pilipinas (BSP) Circular 969 wherein the Bank set the age of seventy (70) years old as the retirement age for Directors, subject to extension to be determined by the Board. The determination of the Board comprises of the fit and proper principle as enshrined in the aforesaid regulations of the SEC and BSP.

2. **Succession Policy**
   a. OBJECTIVE:
      The objectives are threefold:
      i. To ensure unhampered operations of the Bank;
      ii. To ensure continuity in management of its corporate affairs/operations; and
      iii. To avoid strategic risk resulting from a sudden vacancy of key and critical positions in the Bank.
   b. SCOPE:
      The plan shall initially cover the President & CEO, the Vice Chairman & Chief Operations Officer, the Heads of each Group, and the Branch Region Heads.
      Eventually, the plan shall cover the lower level officers, managers, and senior managers.
   c. DEFINITION:
      Succession Plan - A process whereby an organization ensures that there are employees on hand ready to fill roles in cases of expansion and loss of key employees. It includes recognizing and identifying potential successors, within the Bank, training them, and preparing them for career advancement.
   d. GUIDELINES:
      The plan shall take the following steps:
      i. Formulation of Qualification Standards and Competence Criteria
         Qualification standards on the critical positions to be considered for the Succession Plan shall have to be established and inputted in the Job Description of the position.
         The indicators are:
         • Education and training;
         • Work experience;
         • Technical competence; and
         • General / Leadership competence.

         Likewise, a review of past performance ratings shall be conducted as one of the readiness indicators and to ensure that the candidates have consistently turned in good performance.
      ii. Identification of Successors
         The senior officers, starting from the President & CEO, the Vice Chairman & COO, together with the Group Heads of each functional group and the Branch Area Heads, shall endeavor to identify the possible successors or nominees to their respective positions. They shall identify potential successors who will be:
         • Ready in one (1) to three (3) years; and
         • Ready in four (4) to six (6) years.
      iii. Establishing Readiness
         Human Resources Group shall conduct sessions and interviews with the concerned senior officers mentioned in Item B to determine the readiness criteria and rating to assume the positions earmarked for succession.
         A working sheet shall be prepared to score and document the readiness of the nominees identified.
      iv. Role of the Personnel Committee
         The nominees submitted by the senior officers shall be presented to the Bank's Personnel Committee for validation and approval, and may warrant a short-listing of nominees if necessary should there be three or four candidates being considered for certain positions for succession.
      v. Determining Competence Gaps
         In the process of evaluating the candidates for succession using the various factors like technical, general, and leadership competencies/skills aside from training and interventions required, competence gaps for each candidate shall be determined so that appropriate developmental programs can be designed for them.
      vi. Formulation of Developmental Programs for Nominees
         Considering that there will be competence gaps on the part of the candidates for succession, customized developmental programs shall be

designed to cover the competence inadequacies of each candidate.

The developmental programs shall be in the form of the following: external training, leadership skills training, on-the-job training, cross-posting in other areas, special 'projects assignme nts, and other forms of interventions that may be necessary. The conduct of developmental programs may be done individually or on a per-batch/group basis.

vii. Mentoring and Coaching Sessions

Mentors in the Bank shall be identified with the assistance of the Human Resources Group so as to advice and coach the nominees in preparation for them eventually assume higher responsibilities

M. REMUNERATION POLICY

The Manpower, Remuneration and Compensation Committee (MRCC) sets the compensation package of the Executive Directors and other officers of the Bank.

A Non-Executive Director (NED) receives per diem allowance for his attendance to each Board meeting and additional allowance for committee meetings. Furthermore, an NED is also entitled to a monthly gasoline allowance. The Executive Board Members as well as the employees of the Bank, receive fixed salaries and performance bonus, if and when income warrants.

N. RELATED PARTY TRANSACTIONS

Related party transactions (RPTs) shall be allowed provided that these comply with applicable regulatory/ internal limits/requirements and dealings are conducted at arm's length basis. Said transactions shall only be made and entered into substantially on terms and conditions not less favourable than those with other customers of comparable risks.

Off-market rates applies to DOSRI provided these are supported by valid justifications or reasons (such as high volatility in the market, meaning quoted rates might have changed greatly within the day) and senior management is made fully aware of such reasons/ justifications and subject to the off-market rate tolerance level. Off-market rates are foreign currency rates, fixed income yields or prices, and money market rates that are higher than the highest prevailing market rates and lower than the lowest prevailing market rates.

RPTs shall not require the approval of the Board of Directors, except on the following:

1. Transactions with DOSRI which presently require prior approval from the BOD under existing policy of the Bank and in accordance with Sections X148, X334 and X335 of the MORB; and
2. RPTs that exceed the material threshold amounts, as approved by the Board.

Related party transactions with non-DOSRI and those that do not exceed the material threshold amounts and in accordance with the revised policy on levels of signing authority, as approved by the Board, does not require Board approval.

All RPTs that cross the threshold amounts shall be considered as material RPTs and shall be subject to pre-board approval evaluation by the RPT Committee before the same are endorsed to the Board for approval. Board approval is manifested in a resolution passed by the BOD, a copy of which is submitted to the BSP within the prescribed period. Loans and other credit accommodations granted to DOSRI are likewise reported to the BSP not later than 20th banking day after approval of direct or indirect loan granted to any director or officer, stockholder.

O. SELF-ASSESSMENT FUNCTION

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

The Bank established an internal audit system that can reasonably assure the Board, Management and stockholders that the key organizational and operational controls are faithfully complied with. The Board appointed an Internal Auditor to perform the audit function, and required her to report to the Audit Committee that allows the internal audit activity to fulfil its mandate.

Compliance Function is an independent function that defines, advises on, monitors and reports on the Bank's compliance risk of legal or regulatory sanctions, financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, rules and standards.

The compliance function shall be independent from the business activities of the Bank. It shall be provided with sufficient resources to carry out its responsibilities on its own initiative in all units where compliance risks exist. It shall have the right to conduct investigation and be free to report to Senior Management, Audit Committee and/or the Board of Directors material breaches of the Compliance Program and/or laws, rules and standards, without fear of retaliation or disfavor from Management or other affected parties. It shall have access to all operational areas as well as any records or files necessary to enable it to carry out its duties and responsibilities.

To carry out its Compliance responsibilities effectively, the Compliance Office may enter all areas of the Bank and have access to any documents and records considered necessary for the performance of its responsibilities; and shall have the right to require any member of the Management and Staff to promptly supply information and/or explanations as may be needed to carry out its functions.

The Chief Compliance Officer shall functionally and administratively be under the direct supervision of the Board of Directors (through the Audit Committee) and the President, respectively.

P. DIVIDEND POLICY

Shareholders shall have the right to receive dividends subject to the discretion of the Board. The Bank shall declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

Q. CORPORATE SOCIAL RESPONSIBILITY

Initiative	Beneficiary
AMY Foundation Renewal of Scholarship Grants covering 1st and 2nd Semesters of SY 2017-2018	AMY Scholars enrolled in the following: Partner Schools: Philippine Normal University, Polytechnic University of the Philippines, Pamantasan ng Lungsod ng Maynila, Holy Cross College Pampanga Non-partner Schools: University of the East Caloocan, University of Caloocan City, Philippine State College of Aeronautics, Pamantasan ng Lungsod ng Valenzuela, New Era University, Dalubhasaan ng Lungsod ng San Pablo, Our Lady of Fatima University, St. Claire College of Caloocan
Orientation and MOA Signing with the New Scholars of AMY Foundation	Newly approved AMY Scholars
Home Visitation to AMY scholar-applicants	Scholar-applicants
Random School Visits to Partner Schools of the Foundation in order to make the Foundation's presence felt and build better rapport to its partner schools and scholars.	Partners schools and AMY Scholars
Conducted 'Kumustahan' sessions with AMY Scholars in order to get updates on their journey being a college student.	Scholars enrolled in Polytechnic University of the Philippines and Holy Cross College
Balik Eskuwela Project 2017	200 Kinder, Grades 1 and 2 students residing in the adopted community of Couples for Christ (CFC) North A Sector.
Annual Christmas Party for the Indigent Kids	200 underprivileged kids residing in the pre-identified depressed areas in Manila and Caloocan.

R. CONSUMER PROTECTION PRACTICES

1. **Board and Senior Management Oversight Function**
    a. Board of Directors
        The Board shall be primarily responsible for approving and overseeing the implementation of policies governing major areas of the Bank's consumer protection program, including the mechanism to ensure compliance with the set policies.
        The roles of the Board shall include the following:
        i. Approve the Consumer Protection policies;
        ii. Approve Risk Assessment Strategies relating to Effective Recourse by the Consumer;
        iii. Provide adequate resources devoted to Consumer Protection; and
        iv. Review the applicable policies periodically.
    b. Senior Management
        The Senior Management shall be responsible for proper implementation of the Consumer Protection policies and procedures duly approved by the Board. Also, its role shall focus on ensuring effective management of day-to-day consumer protection activities.
2. **Consumer Protection Risk Management System (CPRMS)**
    The Board shall be responsible in developing and maintaining a sound CPRMS which shall be integrated into the overall framework for the entire product and service life cycle. The Board and Senior Management should periodically review the effectiveness of the CPRMS, including how findings are reported and whether the audit mechanisms in place enable adequate oversight. The Board and Senior Management must also ensure that sufficient resources have been devoted to the program. Likewise, the Board and Senior Management must also make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.
3. **Consumer Assistance Management System**
    The Consumer Assistance Management System (CAMS) is a mechanism that records all complaints filed by customers either through the Bangko Sentral ng Pilipinas (BSP) or directly to the concerned branch. The system also monitors the status of the complaints' processing and resolution.
    The general process of handling customer complaints is as follows:
    a. The client may lodge his/her complaint through any of the following means:
        i. By personally visiting the concerned branch/Head Office unit (where he/she shall be asked to fill out the Customer Complaint Form [CCF]);
        ii. Through telephone via the following contact numbers: or

Telephone Numbers	Available Time	Banking Day	Non-Banking Day
Branch/H.O. unit	8:30 AM – 5:30 PM	Y	N
CPO Hotline 363-8050 loc. 1035 or 1027	8:30 AM – 5:30 PM	Y	N
PBB Helpdesk 363-3000	24 hrs.	Y	Y
Mobile Phone thru TEXT 0922-8715322	24 hrs.	Y	Y
Direct Recorded 363-HELP (4357)	8:30 AM – 5:30 PM	Y	N

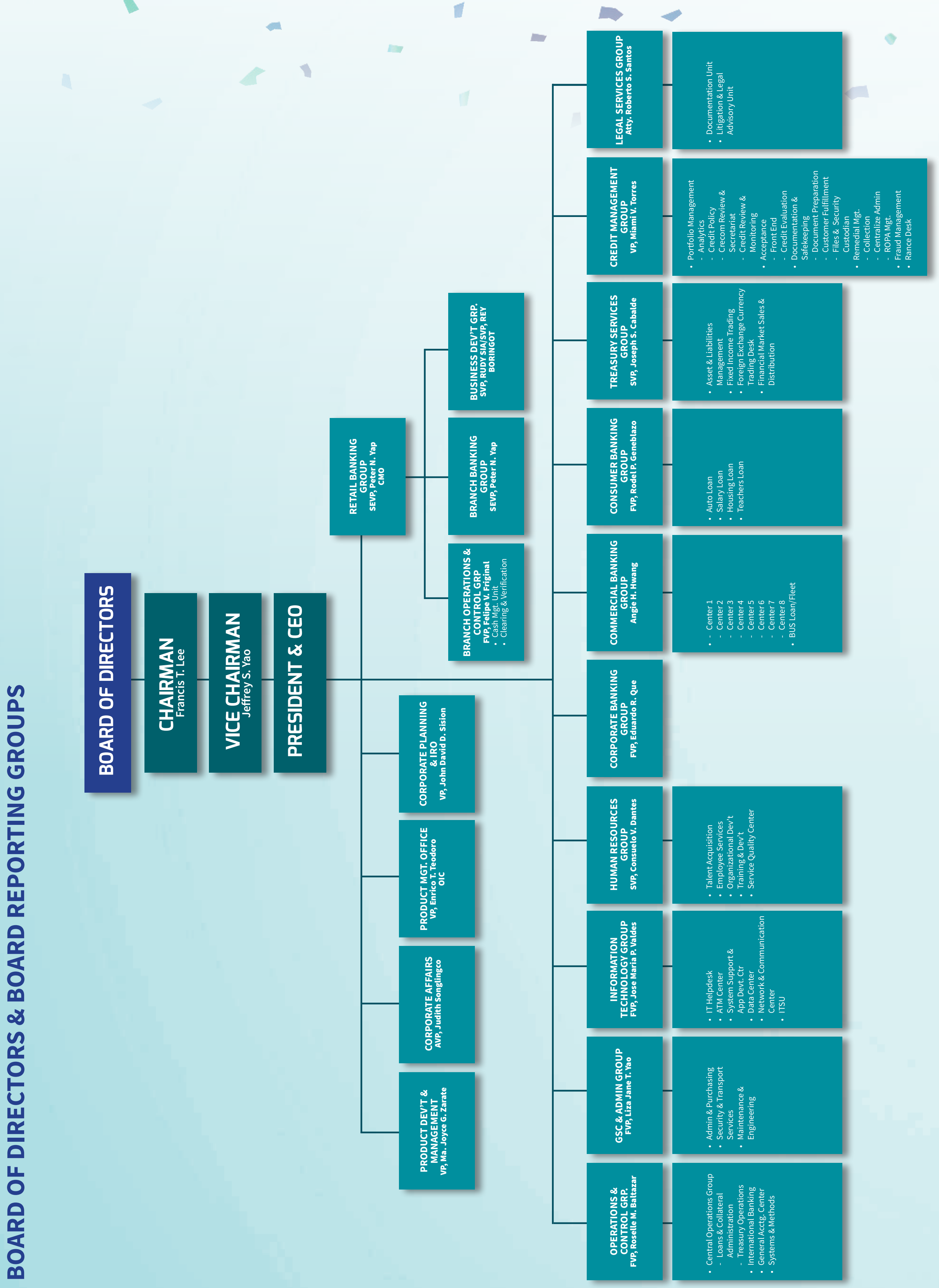
        iii. Via e-mail at consumerprotection@pbb.com.ph
    b. The concerned branch/Head Office unit personnel shall validate the complaint received from the customer. If the complaint can be resolved immediately/upfront, he/she shall explain to the client the resolution of the complaint. If the complaint cannot be resolved immediately, he/she shall explain to the client the following timeline (which are reckoned from the date of receipt of the complaint):

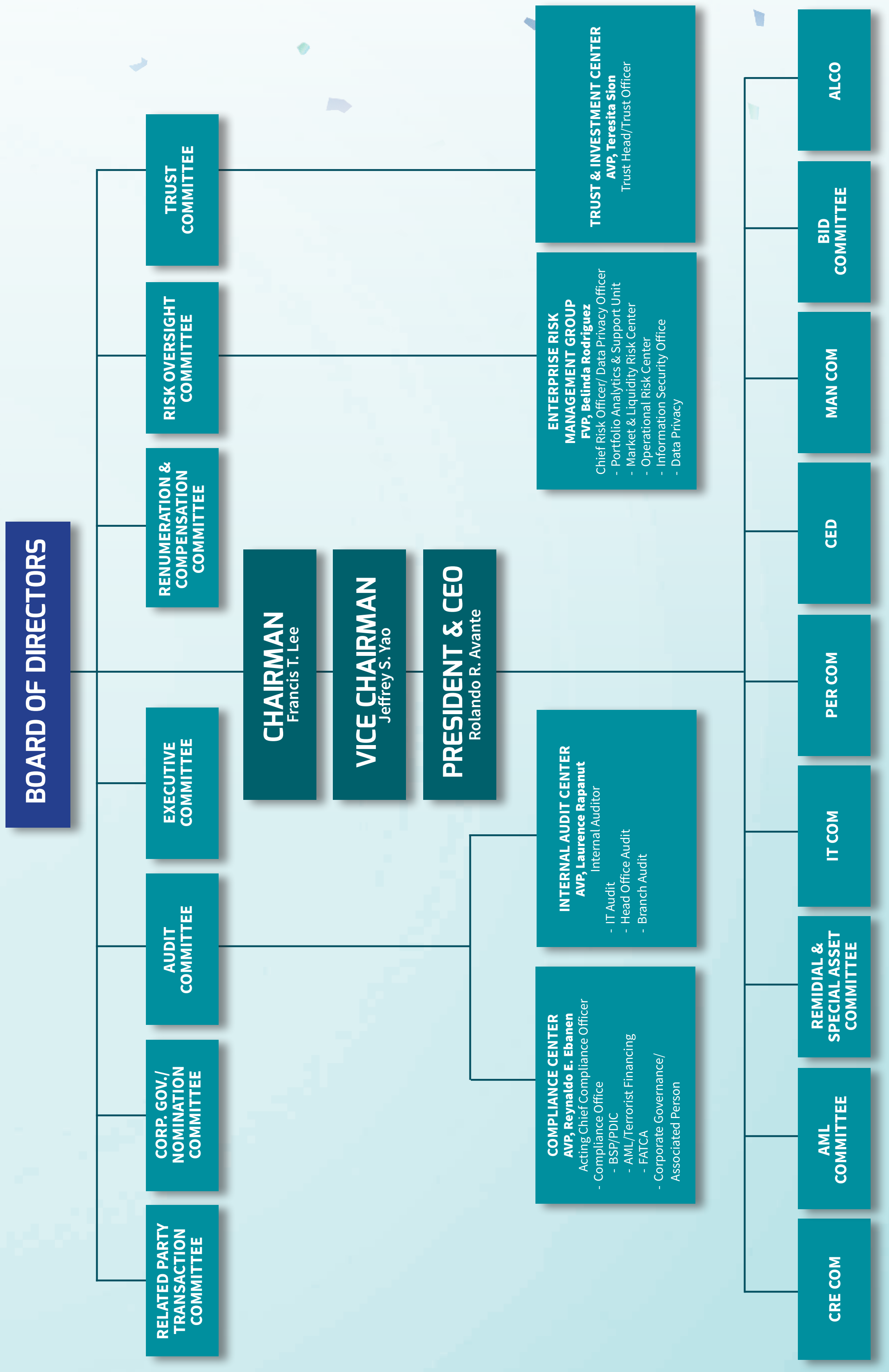
	If the complaint is classified as "Simple"	If the complaint is classified as "Complex"
Acknowledgment	Within 2 days	Within 2 days
Processing and resolution (assess, investigate, and resolve)	Within 7 days	Within 45 days
Communication of resolution	Within 9 days	Within 47 days

        The concerned branch/Head Office unit shall transmit the CCF to the Consumer Protection Unit via e-mail or fax.
    c. The complaint shall pass through the Consumer Protection Officer (CPO) or the PBB Helpdesk (if the complaint is lodged via telephone), who shall acknowledge receipt of the same and shall obtain/record the details of the compliant in the CAMS. The CPO (or PBB Helpdesk) shall then assign the complaint to the concerned Support Group.
    d. The Support Group retrieves the complaint received through the CAMS or e-mail (whichever is applicable) and performs the necessary corrective actions based on the nature of the complaint. The resolution made on the complaint shall then be recorded accordingly in the CAMS or reply via e-mail (whichever is applicable).
    e. Once the complaint has been resolved by the Support Group, the CPO shall tag it as closed in the CAMS. The CPO (or the PBB Helpdesk) shall also be the one to generate and submit the Customer Complaint Summary Report daily to the Consumer Protection Head.
    f. The Consumer Protection Head shall perform the following tasks:
        i. Monitor and evaluate customer complaints handling process;
        ii. Analyze the nature of the complaints and recommends solutions to avoid recurrence;
        iii. Extract generated complaints report monthly except when it is urgently needed to be submitted to and reviewed by the HR Head;
        iv. Recommend the resolution of the case or if needed to be elevated to proper authorities or needed to be taken up in the Committee on Employee Discipline (CED), if applicable;
        v. Report to Senior Management on a quarterly basis the complaints received and the resolutions applied;
        vi. Report periodically to the Board all complaints received within the period as stated; and
        vii. Make recommendation and assessment on the cases filed to avoid recurrence in the future.

TABLE OF ORGANIZATION

BOARD OF DIRECTORS & BOARD REPORTING GROUPS





CORPORATE INFORMATION

MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

The high and low price of the Registrant's shares as of April 12, 2018 is ₱12.58.

HOLDERS

As of December 31, 2017, the following are the holders of record of the Bank's common shares as set forth in the table:

Name	Citizenship	Holdings	Rank
Alfredo M. Yao	Filipino	239,838,309	37.26%
PCD Nominee Corporation - Filipino	Filipino	218,474,433	33.94%
Zest-O Corporation	Filipino	162,052,923	25.17%
PCD Nominee Corporation - Non Filipino	Filipino	9,528,122	1.48%
Armando M. Yao	Filipino	1,620,537	0.25%
Leticia M. Yao	Filipino	1,620,536	0.25%
Erlinda M. Yao	Filipino	1,620,536	0.25%
Jeffrey S. Yao	Filipino	1,620,536	0.25%
Carolyn S. Yao	Filipino	1,620,535	0.25%
Mary Grace S. Yao	Filipino	1,620,535	0.25%
Roberto L. Obiedo	Filipino	506,250	0.08%
James G. Dy	Filipino	468,750	0.07%
Siot Keng Go Dy	Filipino	375,000	0.06%
Peter Y. See	Filipino	375,000	0.06%
Johnny Chan	Filipino	187,500	0.03%
Antonio D. Tan &/or Caridad Tan	Filipino	187,500	0.03%
Jimmy Wai Piu Ng	Filipino	187,500	0.03%
Eusebio S. Go	Filipino	187,500	0.03%
Reynato Keh Lim &/or Susana Dy Lim	Filipino	187,500	0.03%
Xiaohan Wu	Chinese	177,937	0.03%
Others		1,292,655	0.20%
Total		643,750,094	100.00%

On November 16, 2012, the SEC approved PBB's application for the amendment of its articles of incorporation to increase its authorized capital stock from ₱3.0 billion to ₱10.0 billion and for a decrease in par value from ₱100 to P10.00.

PRODUCTS AND SERVICES OFFERED

PBB is a thrift bank that offers a range of commercial and consumer or retail banking products, trust services, and other related financial services such as mail and telegraphic transfers, safety deposit facilities, payment services, among others.

Commercial banking services include term loans, working capital credit lines, bills purchase and discounting lines. PBB is the first thrift bank to be allowed by the BSP to issue foreign currency denominated letters of credit. The Bank also offers specialized loans for agriculture and special programs of the Development Bank of the Philippines, the Social Security System, and other agencies.

Consumer banking loans include auto financing, home financing, and salary or personal loans.

As part of its commercial and consumer banking activities, PBB offers various deposit products to both its commercial and individual clients. These products include Peso denominated current and savings accounts, foreign currency denominated savings accounts and both Peso and foreign currency time deposits.

The Bank's treasury manages the liquidity of PBB and is a key component in revenue and income generation through its investment and trading activities.

Products and services offered by PBB's trust operations include PBB's "Diamond Fund", a unit investment trust fund, investment management arrangements for both individual and commercial clients, escrow agency, security, safekeeping and depository arrangements, a funds management of employee benefit and pre-need plans, among other typical trust products and services.

RECLASSIFICATION, MERGER, CONSOLIDATION, OR PURCHASE OR SALE OF A SIGNIFICANT AMOUNT OF ASSETS NOT IN THE ORDINARY COURSE OF BUSINESS.

In April 2008, the Bank entered into a purchase agreement with the shareholders of Kabalikat Rural Bank, Inc. ("KRBI") under which the Bank purchased 100 per cent of the stock, assets, and goodwill of KRBI. Through this transaction, PBB acquired the five (5) existing branches of KRBI and converted these into thrift bank branches. As an incentive, the BSP granted PBB the right to establish three (3) branches in Restricted Areas and 10 branches in non-restricted areas of the country. In October 2008 and March 2012, the BSP and the SEC respectively approved the merger.

In June 2015, the Bank entered into a purchase agreement with the shareholders of Insular Savers Rural Bank ("ISB") under which the Bank will purchase 100 percent of the stock, assets, and goodwill of ISB subject to the approval of a merger plan by the BSP and SEC. Through the transaction, PBB acquired the existing 10 branches of ISB. This will also help PBB establish a foothold in consumer loans and accelerate the Bank's strategy of expanding client coverage.

In July 2015, the Bank entered into a purchase agreement with the shareholders of Bataan Savings and Loan Bank ("BSLB") wherein the Bank purchased all of recorded properties, assets, and goodwill of BSLB. In October 2017, PBB consolidated its three (3) existing branches.

CORPORATE INFORMATION

DISTRIBUTION METHODS OF THE PRODUCTS OR SERVICES

The Bank utilizes branches for the distribution of its deposit and loan products. The Bank has also established the Institutional Banking Group, working in partnership with the Branch Banking Group, to service the banking needs of its clients. In 2016, the Bank also established the Business Development Group to further enhance its marketing coverage and provide targeted services to its clients. The Bank's Trust products are handled by its Trust Department while Treasury products are marketed by its Treasury Marketing and Sales Department of the Treasury Services Group.

COMPETITION

The Philippine banking sector is highly competitive and the Bank is subject to significant levels of competition from domestic and foreign banks. These banks may have more capital and other financial resources, larger branch network or higher brand recognition, among others, than the Bank. Some financial institutions may be able to offer more products and services, have higher lending limits, offer lower lending rate or possess stronger balance sheets. Competition has affected and will continue to affect the Bank's funding costs as well as the ability of the Bank to market its products and services and implement its business plans and adversely impact PBB's results of operations and financial condition.

In May 2012, Republic Act No. 10574 amended the existing Rural Bank Act of 1992 to allow foreign entities to own up to 60% of the equity in rural banks. Also as a result of this Act, it became possible for foreign nationals without Philippine citizenship to be elected to rural banks' boards of directors. These amendments to rural banking regulations were aimed at attracting foreign capital to the rural banking segment of the banking sector.

The BSP welcomes more foreign players into the local banking system, as the Philippines' financial industry remains a prime destination for international banks. Since the full liberalization of the local banking sector to foreign players in July 2014, foreign banks, particularly those coming from the region, have been coming to the country either to set up branches or to come in as stakeholders to existing local banks. Nine foreign banks have secured the approval from the BSP in the last two years to do business in the country, with at least six more offshore lenders setting sights in the Philippines.

SOURCES AND AVAILABILITY OF RAW MATERIALS AND THE NAMES OF PRINCIPAL SUPPLIERS

This is not relevant to the operations of the Bank.

CUSTOMER CONCENTRATION

The Bank has a diversified customer base and there is no concentration of business in major client group. The Bank is not dependent on any single customer whose loss would have a material adverse effect on the Bank.

TRANSACTIONS WITH AND/OR DEPENDENCE ON RELATED PARTIES

Although the Bank deals with related parties subject to existing rules on related party transactions, there is no dependency on any of its related parties.

PATENTS, TRADEMARKS, COPYRIGHTS, LICENSES, FRANCHISES, CONCESSIONS, AND ROYALTY AGREEMENTS HELD

The Bank has registered with the Intellectual Property Office of the Department of Trade and Industry its New Bank Logo and ATM Business Card Design. The Bank has not been involved in any disputes with respect intellectual property rights of other parties.

GOVERNMENT APPROVAL OF PRINCIPAL PRODUCTS OR SERVICES

The Bank has no outstanding application subject to government approval.

EFFECT OF EXISTING OR PROBABLE GOVERNMENTAL REGULATIONS ON THE BUSINESS

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

COSTS AND EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS

Not applicable.

EMPLOYEES

As of December 31, 2017, the Bank has a total of 1,448 employees broken down into the following categories:

Executives	69
Managers – Operations and Support	134
Managers – Branch / Marketing	359
Staff	886
Total	**1,448**

For the ensuing twelve (12) months, the Bank anticipates to hire an additional 82 employees broken down as follows:

Executive	1
Managers – Operations and Support	27
Managers – Branch / Marketing	24
Staff	30
Total	**82**

There is no collective bargaining agreement between the Bank and any of its employees. None of the Bank's employees are affiliated with any labor union.

FINANCIAL STATEMENTS

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115 Statements of Comprehensive Income
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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders. Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

FRANCIS T. LEE
Chairman of the Board

ROLANDO R. AVANTE
Chief Executive Officer

ROSELLE M. BALTAZAR
Chief Financial Officer

SUBSCRIBED AND SWORN to before me on April 16, 2018 affiants exhibiting to me his/her Government - Isssued ID/s carrying his/her Photograph/s and Signature/s.

Doc. No. 136;
Page No. 21;
Book No. 152;
Series of 2018

ATTY. NIÑO CHRISTOPHER R. PURA
Notary Public (NC-348 Valid Until Dec. 2019)
Roll of Attorney's No. 53988
PTR No. 9405066; 01.03.18; Caloocan
IBP No. 034127; 03.01.18; CALMANA
MCLE CERT NO. V-0023535; 08.16.16
350 Rizal Ave., Cor. 8th Ave., Grace Park Caloocan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Business Bank, Inc., A Savings Bank (the Bank), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loans and Other Receivables Valuation and Recognition of Related Interest Income

Description of the Matter

(i) Valuation of Loans and Other Receivables

Loans and other receivables are the most significant resources of the Bank. As at December 31, 2017, it amounts to P70.6 billion, which is net of allowance for impairment of P1.5 billion, representing 81% of the Bank's total resources. Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement,* requires an entity to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost, which includes loans and other receivables, is impaired. The relevant accounting policies of the Bank on the measurement and impairment of financial assets are disclosed in Note 2 to the financial statements. In applying such policies, management has made significant accounting judgments and estimates, particularly in determining when loans and other receivables are impaired and how much impairment should be recognized in the financial statements. Management's application of judgments and estimates in respect of impairment of loans and other receivables is disclosed in Note 3 to the financial statements and the Bank's analysis of the allowance for impairment of the asset is presented in Note 14 to the financial statements.

Because of the significance of the amounts involved and the inherent subjectivity in making accounting judgments and estimates, we have considered this matter significant in our audit of the financial statements.

(ii) Recognition of Interest Income

The Bank measures these financial assets using the effective interest method and recognizes the related interest income using the effective interest rate. In 2017, the interest income recognized on loans and receivables amounted to P3.7 billion which accounts for 95% of the total interest income of the Bank. Because of the risk that the amount of interest income recognized in the financial statements could be higher than what have been actually generated and the materiality of the amount involved, we have considered the recognition of interest income to be a matter of significance in our audit.

How the Matter was Addressed in the Audit

We established reliance on the Bank's internal control by testing the design and operating effectiveness of key activities-level controls over the assessment and approval of customer credit; the capturing of information relevant to calculation of the amount of allowance for impairment (e.g., risk grades, default rates and loss given defaults); the calculation and recognition of impairment loss; and, the calculation and recognition of the interest income using the effective interest method.

In addition, we performed substantive audit procedures, which included, among others:

- checking and evaluating the methodology used by management whether it was in accordance with the individual and collective impairment assessments in accordance with the applicable financial reporting standards;

- checking whether the loans identified for individual impairment assessment were appropriately classified according to credit grades and recalculating the net present values of expected future cash inflows (i.e., after evaluating reasonableness of management's forecast of recoverable cash flows) using the effective interest rates applicable to each loan, which were compared with the outstanding balances of the loans, on a sampling basis;

- evaluating management's judgment applied in determining the significant assumptions and inputs used in computing the impairment loss for collective assessment such as default rates and loss given defaults by reviewing payment history for selected loans per economic activity or industry classification and credit grade;

- testing, on a sampling basis, the appropriateness of the effective interest rate used by the Bank in computing the interest income; and,

- checking the propriety of the application of payments received by the Bank between principal, interest and penalties, if applicable.

Other Information

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

Our opinion on the 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 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 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 Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 30 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the 2017 audit resulting in this independent auditors' report is Christopher M. Ferareza.

PUNONGBAYAN & ARAULLO

By: Christopher M. Ferareza
Partner

CPA Reg. No. 0097462
TIN 184-595-975 PTR No. 6616009, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1185-AR-1 (until May 11, 2018)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-34-2017 (until Jun. 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 11, 2018

DECEMBER 31, 2017 AND 2016

(Amounts in Philippine Pesos)

	Notes	2017	2016
RESOURCES			
CASH AND OTHER CASH ITEMS	9	**P 1,002,240,895**	P 1,098,616,524
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**6,575,270,040**	6,225,701,096
DUE FROM OTHER BANKS	10	**4,012,519,495**	1,633,340,396
TRADING AND INVESTMENT SECURITIES			
At fair value through profit or loss	11	**-**	3,274,168,284
Available-for-sale	12	**2,438,872,511**	3,811,726,524
LOANS AND OTHER RECEIVABLES - Net	14	**70,552,796,381**	51,437,111,465
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	15	**486,639,186**	535,995,638
INVESTMENT PROPERTIES - Net	16	**423,348,421**	448,389,581
OTHER RESOURCES - Net	17	**1,772,157,992**	1,800,547,430
TOTAL RESOURCES		**P 87,263,844,921**	P 70,265,596,938
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	18		
Demand		**P 1,219,946,216**	P 1,113,474,091
Savings		**26,761,394,203**	23,117,049,313
Time		**45,540,676,996**	34,677,237,336
Total Deposit Liabilities		**73,522,017,415**	58,907,760,740
BILLS PAYABLE	19	**1,933,724,724**	-
ACCRUED EXPENSES AND OTHER LIABILITIES	20	**1,581,874,771**	1,787,751,339
Total Liabilities		**77,037,616,910**	60,695,512,079
EQUITY	21		
Capital stock		**7,057,500,940**	5,984,584,370
Additional paid-in capital		**1,998,396,816**	1,998,396,816
Surplus		**1,249,049,896**	1,681,880,366
Revaluation reserves		**(78,719,641)**	(94,776,693)
Total Equity		**10,226,228,011**	9,570,084,859
TOTAL LIABILITIES AND EQUITY		**P 87,263,844,921**	P 70,265,596,938

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
INTEREST INCOME				
Loans and other receivables	14	P **3,672,405,502**	P 2,753,015,521	P 2,646,100,805
Trading and investment securities	11, 12, 13	**169,493,706**	347,450,912	424,837,162
Due from Bangko Sentral ng Pilipinas and other banks	9, 10	**38,533,466**	106,688,143	69,705,482
Others	23	**1,037,221**	-	-
		3,881,469,895	3,207,154,576	3,140,643,449
INTEREST EXPENSE				
Deposit liabilities	18	**826,990,066**	734,334,592	753,904,091
Bills payable	19	**14,841,279**	12,786	3,331,735
Others	23	**-**	385,402	1,082,509
		841,831,345	734,732,780	758,318,335
NET INTEREST INCOME		**3,039,638,550**	2,472,421,796	2,382,325,114
IMPAIRMENT LOSSES	14, 17	**260,519,609**	157,043,157	172,050,358
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**2,779,118,941**	2,315,378,639	2,210,274,756
OTHER INCOME				
Service charges, fees and commissions	2	**200,841,789**	151,446,102	132,425,882
Trading gains - net	11, 12, 13	**139,089,396**	335,383,026	69,474,667
Miscellaneous - net	22	**47,147,687**	84,734,375	73,430,963
		387,078,872	571,563,503	275,331,512
OTHER EXPENSES				
Salaries and other employee benefits	23	**735,812,499**	635,523,891	543,446,728
Taxes and licenses	30	**382,355,576**	354,104,708	328,317,557
Occupancy	26	**294,904,718**	274,470,716	250,346,533
Insurance		**163,492,077**	139,095,054	128,348,739
Depreciation and amortization	15, 16	**145,909,964**	153,072,322	137,495,289
Management and other professional fees		**117,575,137**	125,373,997	93,426,123
Representation and entertainment		**33,466,272**	34,865,345	32,269,518
Miscellaneous	22	**379,348,076**	295,973,454	266,516,503
		2,252,864,319	2,012,479,487	1,780,166,990
PROFIT BEFORE TAX		**913,333,494**	874,462,655	705,439,278
TAX EXPENSE	25	**273,247,394**	205,838,450	203,297,274
NET PROFIT		P **640,086,100**	P 668,624,205	P 502,142,004
Earnings Per Share				
Basic and Diluted	29	P **0.99**	P 0.92	P 0.78

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
NET PROFIT		P **640,086,100**	P 668,624,205	P 502,142,004
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit plan	23	**(19,589,334)**	22,612,985	3,715,322
Tax income (expense)	25	**5,876,800**	(6,783,896)	(1,114,597)
		(13,712,534)	15,829,089	2,600,725
Items that will be reclassified subsequently to profit or loss				
Fair value gains (losses) on available-for-sale securities during the year - net	12	**59,748,950**	772,317,899	(53,101,385)
Fair value losses (gains) reclassified to profit or loss	12	**(29,979,364)**	(270,581,452)	6,615,377
Amortization of fair value losses on reclassified securities	12, 13	**-**	(6,457,719)	(11,070,376)
		29,769,586	495,278,728	(57,556,384)
Other Comprehensive Income (Loss) - Net of Tax		**16,057,052**	511,107,817	(54,955,659)
TOTAL COMPREHENSIVE INCOME		P **656,143,152**	P 1,179,732,022	P 447,186,345

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Philippine Pesos)

	Notes	Capital Stock (see Note 21) Preferred Stock	Capital Stock (see Note 21) Common Stock	Additional Paid-in Capital (see Note 21)	Surplus Appropriated	Surplus Unappropriated	Revaluation Reserves (see Note 21) Unrealized Fair Value Losses on Available-for-sale Securities	Revaluation Reserves (see Note 21) Accumulated Actuarial Losses	Total Equity
BALANCE AS OF JANUARY 1, 2017		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 5,989,552	P 1,675,890,814	(P 82,019,677)	(P 12,757,016)	P 9,570,084,859
Stock dividends	21	-	1,072,916,570	-	-	(1,072,916,570)	-	-	-
Appropriation for trust reserves	21, 27		-	-	1,118,218	(1,118,218)	-	-	-
Total comprehensive income (loss)		-	-	-	-	640,086,100	29,769,586	(13,712,534)	656,143,152
BALANCE AS OF DECEMBER 31, 2017		**P 620,000,000**	**P 6,437,500,940**	**P 1,998,396,816**	**P 7,107,770**	**P 1,241,942,126**	**(P 52,250,091)**	**(P 26,469,550)**	**P 10,226,228,011**
BALANCE AS OF JANUARY 1, 2016		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 4,799,387	P 1,087,656,774	(P 577,298,405)	(P 28,586,105)	P 8,469,552,837
Appropriation for trust reserves	21	-	-	-	1,190,165	(1,190,165)	-	-	-
Cash dividends	21	-	-	-	-	(79,200,000)	-	-	79,200,000
Total comprehensive income		-	-	-	-	668,624,205	495,278,728	15,829,089	1,179,732,022
BALANCE AS OF DECEMBER 31, 2016		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 5,989,552	P 1,675,890,814	(P 82,019,677)	(P 12,757,016)	P 9,570,084,859
BALANCE AS OF JANUARY 1, 2015		P 620,000,000	P 4,291,667,500	P 1,998,396,816	P 3,411,900	P 1,659,819,127	(P 519,742,021)	(P 31,186,830)	P 8,022,366,492
Stock dividends	21	-	1,072,916,870	-	-	(1,072,916,870)	-	-	-
Appropriation for trust reserves	21, 27	-	-	-	1,387,487	(1,387,487)	-	-	-
Total comprehensive income (loss)		-	-	-	-	502,142,004	(57,556,384)	2,600,725	447,186,345
BALANCE AS OF DECEMBER 31, 2015		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 4,799,387	P 1,087,656,774	(P 577,298,405)	(P 28,586,105)	P 8,469,552,837

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 913,333,494**	P 874,462,655	P 705,439,278
Adjustments for:				
Impairment losses	14, 17	**260,519,609**	157,043,157	172,050,358
Depreciation and amortization	15, 16	**145,909,964**	153,072,322	137,495,289
Gain on sale of available-for-sale (AFS) securities	12	**(35,661,078)**	(323,546,622)	(58,211,032)
Gain on sale of properties - net	22	**(21,104,197)**	(14,957,797)	(15,028,632)
Loss on foreclosure - net	22	**-**	-	2,480,845
Operating profit before working capital changes		**1,262,997,792**	846,073,715	944,226,106
Decrease (increase) in financial assets at fair value through profit or loss		**3,274,168,284**	(3,198,225,645)	95,949,165
Increase in loans and other receivables		**(18,946,058,784)**	(10,292,691,231)	(1,811,234,055)
Decrease (increase) in other resources		**63,924,151**	(99,568,223)	(436,050,625)
Increase in deposit liabilities		**14,447,530,766**	3,735,627,968	8,396,811,884
Decrease in accrued expenses and other liabilities		**(166,116,284)**	(489,921,837)	(879,949,701)
Cash generated from (used in) operations		**(63,554,075)**	(9,498,705,253)	6,309,752,774
Cash paid for income taxes		**(334,642,895)**	(223,708,542)	(185,189,537)
Net Cash From (Used in) Operating Activities		**(398,196,970)**	(9,722,413,795)	6,124,563,237
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of AFS securities	12	**4,803,015,169**	9,013,850,949	896,760,480
Acquisitions of AFS securities	12	**(3,352,273,750)**	(1,844,594,612)	(2,274,907,422)
Cash acquired through business combination	17	**215,165,134**	-	-
Acquisitions of bank premises, furniture, fixtures and equipment	15	**(101,847,311)**	(142,983,302)	(178,055,371)
Proceeds from sale of investment and other properties	16, 17	**94,683,757**	422,360,427	55,820,368
Acquisition of software licenses	17	**(16,556,064)**	(14,989,422)	(23,353,751)
Proceeds from sale of bank premises, furniture, fixtures and equipment	15	**15,532,562**	33,672,003	6,236,962
Payments for business acquisition	17	**-**	(223,539,299)	(275,104,857)
Net Cash From (Used In) Investing Activities		**1,657,719,497**	7,243,776,744	(1,792,603,591)
CASH FLOWS FROM FINANCING ACTIVITIES				
Availments of bills payable	19	**6,424,212,200**	-	-
Settlement of bills payalbe	19	**(4,490,487,476)**	(956,250)	(308,565,602)
Payment of cash dividends	21	**(79,200,000)**	-	-
Net Cash From (Used In) Financing Activities		**1,854,524,724**	(956,250	(308,565,602)

Forward

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Philippine Pesos)

	Notes	2017	2016	2015
NET INCREASE (DECREASE IN) CASH AND CASH EQUIVALENTS		**P 3,114,047,251**	(P 2,479,593,301)	P 4,023,394,044
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
Cash and other cash items	9	**1,098,616,524**	1,279,302,155	1,174,011,464
Due from Bangko Sentral ng Pilipinas	9	**6,225,701,096**	7,672,637,783	4,554,441,827
Due from other banks	10	**1,633,340,396**	2,825,982,401	2,031,581,088
Securities under reverse repurchase agreement	14	**345,154,260**	-	-
Foreign currency notes and coins on hand	17	**59,387,782**	63,871,020	58,364,936
		9,362,200,058	11,841,793,359	7,818,399,315
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash and other cash items	9	**1,002,240,895**	1,098,616,524	1,279,302,155
Due from Bangko Sentral ng Pilipinas	9	**6,575,270,040**	6,225,701,096	7,672,637,783
Due from other banks	10	**4,012,519,495**	1,633,340,396	2,825,982,401
Securities under reverse repurchase agreement	14	**826,072,472**	345,154,260	-
Foreign currency notes and coins on hand	17	**60,144,407**	59,387,782	63,871,020
		P 12,476,247,309	P 9,362,200,058	P 11,841,793,359

Supplemental Information on Noncash Investing and Financing Activities:

(1) In 2017 and 2015, the Bank declared and distributed stock dividends amounting to P1,072.9 million for each year (see Note 21).

(2) In 2017 and 2016, the Bank acquired bank premises, furniture, fixtures and equipment amounting to P1.0 million and P5.6 million, respectively, through business combination (see Notes 15 and 17).

(3) On December 29, 2016, the Bank declared cash dividend on preferred shares amounting to P79.2 million which was paid in 2017 (see Note 21).

(4) Loans and other receivables settled through foreclosures of related collateral amounted to P62.9 million in 2017, P191.9 million in 2016, and P29.6 million in 2015 (see Notes 16 and 17.)

(5) In 2016, the Bank reclassified certain corporate debt securities amounting to P698.2 million from loans and other receivables to AFS securities (see Note 14).

Other Information -

The securities under reverse repurchase agreement and foreign currency notes and coins are included as part of Cash and Cash Equivalents for cash flow purposes but are presented as part of Loans and Other Receivables and Other Resources, respectively, in the statements of financial position (see Note 2.5).

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Amounts in Philippine Pesos or As Otherwise Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Philippine Business Bank, Inc., A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. The Bank is a publicly listed entity in the Stock Exchange (PSE). It had its initial public offering (IPO) of shares on February 13, 2013 (see Note 21.1).

As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. Its activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (RA) No. 8791] and other relevant laws.

PBB is the first savings bank in the Philippines that obtained the BSP approval to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange under RA Nos. 8791 and 7906 and the Manual of Regulations for Banks. It was granted in April 2010.

The Bank operates in the Philippines and, as of December 31, 2017 and 2016, it has 142 and 139 branches, respectively, located nationwide.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

1.2 Approval of the Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2017 (including the comparative financial statements as of December 31, 2016 and for the years ended December 31, 2016 and 2015) were authorized for issue by the Bank's Board of Directors (BOD) on April 11, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies that have been used in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated.

(Amounts in Philippine Pesos or As Otherwise Indicated)

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU), which is reported in United States (US) dollar, are translated to Philippine peso based on Philippine Dealing System closing rates (PDSCR) at the end of reporting period for the statement of financial position accounts and at the average PDSCR for the period for the profit and loss.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017 that are Relevant to the Bank

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Management has applied these amendments in the current year and has not disclosed comparative figures as allowed by the transitional provisions. A reconciliation between the opening and closing balances of liabilities arising from financing activities are presented in Note 19.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The amendment had no significant impact on the Bank's financial statements.

(b) Effective in 2017 that are not Relevant to the Bank

Annual Improvements to PFRS (2014-2016 Cycle), specifically on PFRS 12, *Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale*, are mandatorily effective for annual periods beginning on or after January 1, 2017 but are not relevant to the Bank's financial statements.

(c) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS, interpretations and amendments to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions:

(i) PAS 40 (Amendment), *Investment Property – Reclassification to and from Investment Property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use. Management has assessed that this amendment will have no significant impact on the Bank's financial statements.

(ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Classification and Measurement,* and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment and comprehensive study of the Bank's financial assets and liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined the impact of PFRS 9 (2014) on the financial statements as follows:

- Loans and other receivables are composed of receivables from customers and other receivables, which are held to collect contractual cash flows representing SPPI (see Note 14). These financial assets will continue to be measured at amortized cost upon application of PFRS 9 (2014).
- Available-for-sale (AFS) financial securities of the Bank pertain to debt securities which are composed of corporate and government bonds (see Note 12). The Bank's assessment showed that these bonds qualify under the SPPI test and held-to-collect and sell business models. Thus, these bonds will continue to be measured at fair value, with mark-to-market fluctuations recognized in other comprehensive income subject to recycling upon disposal of these securities.
- The financial liabilities of the Bank are measured at amortized cost. Management's assessment showed that the amortized cost classification of the financial liabilities will be retained upon adoption of PFRS 9 (2014).
- In applying the ECL methodology of PFRS 9 (2014), the Bank shall initially use the loan loss provision methodology based on BSP Circular 855 as allowed by the standard and as prescribed by the BSP on October 9, 2014. On the other hand, ECL on government bonds and corporate bonds currently classified as AFS securities shall be measured using the 12-month ECL as these financial assets are assessed to have low credit risk, considering their respective credit ratings.

  Management's assessment showed that the application of the ECL model will result in an increase in the required allowance for impairment of certain financial instruments as at the beginning of the next reporting period and in impairment losses in that period as compared with the amount that would have been recognized under the impairment provisions of PAS 39.

(iii) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Based on an assessment of the Bank's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management has initially concluded that the adoption of PFRS 15 will have no significant impact on the financial statements. This is because of the fact that as a financial institution, except for certain service changes and fees, its lending activities generate revenues that are substantially from financial instruments which are outside the scope of PFRS 15.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this amendment has no material impact on the Bank's financial statements.

(v) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the solely payments of principal and interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. Management is currently assessing the impact of this new standard in its financial statements.

(vi) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method.

However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management anticipates that the adoption of this standard will result in an increase in resources and a corresponding increase in obligations based on its analysis of the outstanding lease contract of the Bank as of December 31, 2017.

(vii) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new interpretation in its financial statements.

(viii) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Bank but are not expected to have any material impact on the Bank's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

2.3 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Negative goodwill which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provision, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 8.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8, *Operating Segments,* is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Bank's operations are organized according to the nature of the products and services provided. Financial performance on operating segments is presented in Note 8.

2.5 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of an equity for the issuer in accordance with the criteria under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and AFS securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Except for derivative financial instruments and financial assets designated at FVTPL, the designation of financial assets is re-evaluated at the end of each reporting period and at which date, a choice of classification or accounting treatment is available, which is subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

A more detailed description of the four categories of financial assets is as follows:

(i) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Bank to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, unquoted debt securities, sales contract receivables and all receivables from customers and other banks.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, and Other Resources (specifically Security deposits, Petty cash fund and Foreign currency notes and coins on hand) in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, foreign currency notes and coins on hand and securities under reverse repurchase agreement (SPURRA) with original maturities of three months or less from placement date.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any.

(iii) HTM Investments

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM investments category for the next two financial reporting years after the year the tainting occurred. The tainting provision under PFRS will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank 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 control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

Subsequent to initial recognition, the HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any.

(iv) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS securities include government securities, corporate bonds and equity securities.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial assets has not been derecognized.

(b) Impairment of Financial Assets

The Bank 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 impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: (i) significant financial difficulty of the issuer or debtor; (ii) a breach of contract, such as a default or delinquency in interest or principal payments; (iii) it is probable that the borrower will enter bankruptcy or other financial reorganization; (iv) the disappearance of an active market for that financial asset because of financial difficulties; or, (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

(i) Carried at Amortized Cost – Loans and Receivables and HTM Investments

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and other receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If loans and other receivables or HTM investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. 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 foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets because they are indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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 for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

(ii) Carried at Fair Value – AFS Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, 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 other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized the impairment loss is reversed through profit or loss.

Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(iii) Carried at Cost – AFS Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(c) Items of Income and Expense Related to Financial Assets

All income and expenses, including impairment losses, relating to financial assets are recognized in the statement of profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Derivative Financial Instruments

The Bank uses derivative financial instruments, particularly plain vanilla foreign exchange swaps, to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive (recognized as part of Miscellaneous under the Other Resources account) and as liabilities (recognized under the Accrued Expenses and Other Liabilities account) when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

2.7 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.8 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable and accrued expenses and other liabilities (excluding tax-related payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of profit or loss.

Deposit liabilities and bills payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration and subsequent approval of the BSP.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 Other Resources

Other resources pertain to other assets controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

(Amounts in Philippine Pesos or As Otherwise Indicated)

2.10 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 to 20 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

2.11 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are neither held by the Bank for sale in the next 12 months nor used in the rendering of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Investment properties, except land, are depreciated over a period of five to ten years. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation.

Direct operating expenses related to investment properties, such as real estate taxes are normally charged against current operations in the period in which these costs are incurred.

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss under the Gain or loss on sale of properties under Miscellaneous Income or Expenses in the statement of profit or loss, in the year of retirement or disposal.

2.12 Intangible Assets

Intangible assets include goodwill, branch licenses and computer software, which are included as part of Other Resources and are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful life lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing when indications exist, as described in Note 2.19. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.19). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units and is subsequently carried at cost less any allowance for impairment losses.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.13 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.14 Equity

Capital stock represents the nominal value of the common and preferred shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Appropriated surplus represents the accumulated amount set aside by the Bank for trust business under prevailing regulations, requiring the Bank to carry to surplus 10% of its net profits accruing from trust business until the surplus amounts to 20% of its authorized capital stock. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this reserve.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revaluation reserves comprise of the remeasurements of post-employment defined benefit plan and unrealized fair value gains (losses) on mark-to-market valuation of AFS securities, net of amortization of fair value gains or losses on reclassified financial assets.

2.15 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and (d) the Bank's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.16 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the costs and expenses incurred and to be incurred can be measured reliably. Cost and expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) Interest Income and Expense

Interest income and expense are recognized in the statement of profit or loss for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

(b) Service Charges, Fees and Commissions

Service charges, fees and commissions are generally recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis

(c) Trading Gains or Losses

Trading gains or losses are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading gains or losses also include result from the mark-to-market valuation of the securities classified as financial assets at FVTPL at the valuation date and gain or loss from foreign exchange trading.

(d) Gain on Sale of Properties

Gain on sale of properties, which arises from the disposals of real properties, are recognized when the related risks and rewards of ownership of the assets have already been transferred to the buyer.

2.17 Leases – Bank as Lessee

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset, are classified as operating lease. Operating lease payments (net of any incentive received from the lessor) are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.18 Foreign Currency Transactions and Translation

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.19 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, computer software, other properties held-for-sale (classified as part of Miscellaneous under Other Resources) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill and branch licenses (see Note 2.12) or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the cash generating units' recoverable amount exceeds its carrying amount.

2.20 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Philippine Dealing & Exchange Corp. (PDEx) that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense account in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Bonus Plans

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.21 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.22 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.23 Earnings Per Share

Basic earnings per share (EPS) is determined by dividing net profit attributable to common shares by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period, if any.

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the Securities and Exchange Commission. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. As of December 31, 2017 and 2016, the Bank has no convertible preferred shares (see Note 21.1).

2.24 Trust and Fiduciary Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.25 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. 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. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the judgments discussed in the succeeding pages, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

(a) Classification of Financial Assets at HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances as allowed under the standards, it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank 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 control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank. See related disclosure in Note 13.

(b) Impairment of AFS Securities

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management has assessed that none of the Bank's securities are impaired as of December 31, 2017 and 2016. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) Distinction Between Investment Properties or Other Properties Held for Sale and Owner-occupied Properties

The Bank determines whether a property qualifies as investment property. In making this judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to properties but also to other assets used in the production or supply process.

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other properties held for sale presented as part of Miscellaneous under Other Resources if the Bank expects that the properties, which are other than land and building, will be recovered through sale rather than use, and as Investment Properties if the Bank intends to hold the properties, which could be land and/or building, to earn rental or for capital appreciation in accordance with PAS 39.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(d) Determination of Branch Licenses Having Indefinite Useful Lives

The Bank's branch licenses were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

(e) Distinction Between Operating and Finance Leases

The Bank has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

As of December 31, 2017 and 2016, the Bank has determined that all its leases are operating leases (see Note 26).

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and relevant disclosures are presented in Note 26.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 Key Sources of Estimation Uncertainty

Discussed in below and in the succeeding pages are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period.

(a) Estimation of Impairment of Financial Assets (AFS Securities and Loans and Other Receivables)

The Bank reviews its AFS securities and loans and other receivable portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio.

Moreover, the Bank holds debt securities measured at fair value classified as AFS securities as of December 31, 2017 and 2016. The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment whether the Bank has an investment classified as AFS is other-than-temporarily impaired, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

In determining whether the loans and receivables have any evidence of impairment, the Bank gathers information that include observable data which indicates that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group, including, but not limited to, the length of the Bank's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Note 14. There are no impairment losses recognized on AFS securities and HTM investments in 2017, 2016 and 2015.

(b) *Fair Value Measurement of Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Bank's financial assets at FVTPL and AFS securities and the amounts of fair value changes recognized on those assets are disclosed in Notes 11 and 12, respectively.

(c) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources (i.e. Computer Software)*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, except land, and other resources (i.e. computer software) based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties and other resources (e.g. computer software and branch licenses) are analyzed in Notes 15, 16 and 17, respectively. Based on management assessment, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount 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. The carrying value of deferred tax assets, which management has assessed to be fully recoverable, as of December 31, 2017 and 2016 is disclosed in Notes 17 and 25.

(e) *Determination of Fair Value of Investment Properties*

The Bank's investment properties are composed of parcels of land and buildings and improvements which are held for capital appreciation, and are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

At initial recognition, the Bank determines the fair value of the acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property. For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.

(f) *Estimation of Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives (i.e. goodwill and branch licenses), which are annually tested for impairment, PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Allowance for impairment recognized on investment properties and other properties held for sale are discussed in Notes 16 and 17. There are no impairment losses recognized in goodwill, branch licenses, bank premises, furniture, fixtures and equipment.

(g) *Valuation of Post-employment Benefits*

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates, expected rate of salary increases and employee turnover. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of defined benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 23.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

4.1 Risk Management

The Bank continually advances on its risk management techniques and integrate this into the overall strategic business objectives to support the growth objectives of the Bank.

The Bank has automated the front-office, back office, and middle office operations as far as market risk is concerned. This includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover market risk exposures.

On the credit side, the Bank has instituted improvements on its credit policies, which includes review and approval of large exposure and credit concentration within proper authority. The Bank also reviews plans and progress on the resolution of problem loan accounts. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

As for operational risk, the Bank has completed the bankwide operational risk and control self-assessment in support of the enterprise risk management framework of the Bank. With this, there is also an enterprise-wide training on risk awareness to ensure appreciation and measurement of key risks of each unique business and support units and how these relate to the over-all objective and strategies of the Bank. In addition, information security policies were further strengthened, implemented, and disseminated across all units of the Bank.

4.2 Enterprise Risk Management Framework

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks, subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group (ERMG) in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty, and other downside risks within the context of the supervisory risk guidelines of the BSP and aligned best practices on risk management.

4.3 Credit Risk

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. ERMG, as guided by the ROC, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the ROC.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making.

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements and as summarized below (amounts in thousands).

	Notes	**2017**	2016
Due from BSP	9	**P 6,575,270**	P 6,225,701
Due from other banks	10	**4,012,519**	1,633,340
Financial assets at FVTPL	11	**-**	3,274,168
AFS securities	12	**2,438,873**	3,810,027
Loans and other receivables – net	14	**70,552,796**	51,437,111
Other resources	17	**29,782**	30,190
		P 83,609,240	P 66,410,537

The credit risk quality of the Bank's financial assets is further described below and in the succeeding pages:

(i) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents with credit risk are Due from BSP, Due from Other Banks, and SPURRA under Loans and Other Receivables. Due from Other Banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

(ii) Financial Assets at FVTPL and AFS Securities

The Bank continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Moreover, these investments are mainly composed of government bonds whose credit risk is secured by the Philippine Government and certain corporate debt securities issued by publicly-known local companies with no observed history of credit default. Accordingly, all debt instruments held by the Bank are considered as either high grade or standard grade that is neither past due nor specifically impaired.

(iii) Loans and Other Receivables

The Bank regularly reviews and monitors defaults of borrowers identified either individually or by group, and incorporates this information into its credit risk evaluation. Where available at a reasonable cost, external credit ratings and/or reports on customers are obtained and used. In addition, for a significant proportion of loans, post-dated checks are received to mitigate credit risk.

The following table shows detailed analysis of the Bank's maximum exposure to credit risk on loans and other receivables as of December 31, 2017 and 2016 (amounts in thousands):

	2017	2016
Individually impaired		
Wholesale and retail trade	**P 516,798**	P 433,125
Services	**340,601**	270,126
Consumption	**201,956**	141,279
Manufacturing	**149,487**	136,849
Real estate, renting and construction	**122,952**	119,146
Others	**201,745**	581,601
Gross amount	**1,533,539**	1,682,126
Allowance for impairment	**(861,045)**	(888,470)
Carrying amount	**672,494**	793,656
Collectively impaired		
Wholesale and retail trade	**14,114,505**	11,420,466
Services	**12,162,896**	10,122,336
Real estate, renting and construction	**14,641,842**	4,596,961
Manufacturing	**4,374,867**	4,471,631
Others	**1,682,427**	328,687
Gross amount	**46,976,537**	30,940,081
Allowance for impairment	**(595,403)**	(345,198)
Carrying amount	**46,381,134**	30,594,883
Past due but unimpaired		
Carrying amount	**196,988**	20,403
Neither past due nor impaired		
Carrying amount	**23,302,180**	20,028,169
Total carrying amount	**P 70,552,796**	P 51,437,111

The Bank's financial assets that are past due but unimpaired pertains only to certain loans and other receivable items.

In addition to default and concentration risk arising from lending activities, the Bank has an incremental issuer credit risk exposure emanating from trading and investment securities and due from other banks amounting to P2,438.9 million and P4,012.5 million, respectively, as of December 31, 2017; and from trading and investment securities, due from other banks and derivative financial assets, which is included in the Other Resources account, amounting to P7,084.2 million, P1,633.3 million and P0.5 million, respectively, as of December 31, 2016. These are, however, neither past due nor impaired.

The balance of the Due from BSP account represents the aggregate balance of noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Hence, no significant credit risk is anticipated on this account.

The carrying amounts of loans and other receivables are partially secured by collateral mainly consisting of real estate and chattel mortgages, and hold-out deposits.

The Bank's financial assets that are past due but unimpaired pertains only to certain loans and other receivable items. An analysis of the past due but unimpaired loans and other receivables reckoned from the last payment date follows (amounts in thousands).

	2017	2016
Up to 30 days	**P 122,859**	P 20,403
31 to 90 days	**74,129**	-
	P 196,988	P 20,403

4.4 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its resources and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in the overall liquidity and funding conditions in the market.

Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

(a) Foreign Currency Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The breakdown of the financial assets and financial liabilities as to foreign currency (translated into Philippine pesos) and Philippine peso-denominated balances as of December 31, 2017 and 2016 follow (amounts in thousands):

	2017		
	Foreign Currency	**Philippine Peso**	**Total**
Financial Assets:			
Cash and other cash items	**P -**	**P 1,002,241**	**P 1,002,241**
Due from BSP	**-**	**6,575,270**	**6,575,270**
Due from other banks	**3,122,080**	**890,439**	**4,012,519**
AFS securities	**2,073,756**	**365,116**	**2,438,872**
Loans and other receivables - net	**444,176**	**70,108,620**	**70,552,796**
Other resources	**54,223**	**36,055**	**90,278**
	P 5,694,235	**P 78,977,741**	**P 84,671,976**
Financial Liabilities:			
Deposit liabilities	**P 5,463,248**	**P 68,058,769**	**P 73,522,017**
Bills payable	**-**	**1,933,725**	**1,933,725**
Accrued expenses and other liabilities	**-**	**1,403,001**	**1,403,001**
	P 5,463,248	**P 71,395,495**	**P 76,858,743**

	2016		
	Foreign Currency	Philippine Peso	Total
Financial Assets:			
Cash and other cash items	P -	P 1,098,617	P 1,098,617
Due from BSP	-	6,225,701	6,225,701
Due from other banks	862,129	771,211	1,633,340
Financial assets at FVTPL	48,701	3,225,467	3,274,168
AFS securities	2,796,477	1,015,250	3,811,72
Loans and other receivables - net	1,196,171	50,240,940	51,437,111
Other resources	58,240	31,681	89,921
	P 4,961,718	P 62,608,867	P 67,570,585
Financial Liabilities:			
Deposit liabilities	P 4,805,746	P 54,102,015	P 58,907,761
Accrued expenses and other liabilities	-	1,605,710	1,605,710
	P 4,805,746	P 55,707,725	P 60,513,471

(b) Interest Rate Risk

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing resources and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly.

The analyses of the groupings of resources, liabilities, capital funds and off-book financial position items as of December 31, 2017 and 2016 based on the expected interest realization or recognition follows (amounts in thousands).

	Less than One Month	**One to Three Months**	**Three Months to One Year**	**More than One Year**	**Non-rate Sensitive**	**Total**
2017						
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 1,002,241	P 1,002,241
Due from BSP	6,575,270	-	-	-	-	6,575,270
Due from other banks	4,012,519	-	-	-	-	4,012,519
Trading and investment securities	-	-	77,321	2,361,552	-	2,438,873
Loans and other receivables - net	41,850,742	9,995,861	5,447,947	1,782,787	11,475,459	70,552,796
Other resources*	-	-	-	-	2,682,146	2,682,146
Total Resources	52,438,531	9,995,861	5,525,268	4,144,339	15,159,846	87,263,845
Liabilities and Equity:						
Deposit liabilities	19,500,474	13,537,109	12,157,472	1,693,532	26,633,430	73,522,017
Bills payable	1,000,000	-	-	-	933,725	1,933,725
Accrued expenses and other liabilities	-	-	-	-	1,581,875	1,581,875
Total Liabilities	20,500,474	13,537,109	12,157,472	1,693,532	29,149,030	77,037,617
Equity	-	-	-	-	10,226,228	10,226,228
Total Liabilities and Equity	20,500,474	13,537,109	12,157,472	1,693,532	39,375,258	87,263,845
On-book Gap	31,938,057	(3,541,248)	(6,632,204)	2,450,807	(24,215,412)	-
Cumulative On-book Gap	31,938,057	28,396,809	21,764,605	24,215,412	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	816,409	-
Off-book Gap	-	-	-	-	(816,409)	(816,409)
Net Periodic Gap	31,938,057	(3,541,248)	(6,632,204)	2,450,807	(25,031,821)	(816,409)
Cumulative Total Gap	**P 31,938,057**	**P 28,396,809**	**P 21,764,605**	**P 24,215,412**	**(P 816,409)**	**P -**

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
2016						
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 1,098,617	P 1,098,617
Due from BSP	6,225,701	-	-	-	-	6,225,701
Due from other banks	1,633,340	-	-	-	-	1,633,340
Trading and investment securities	29,967	25,945	-	7,028,283	1,700	7,085,895
Loans and other receivables - net	32,252,007	6,145,414	3,829,367	2,123,885	7,086,438	51,437,111
Other resources*	-	-	-	-	2,784,933	2,784,933
Total Resources	40,141,015	6,171,359	3,829,367	9,152,168	10,971,688	70,265,597
Forward						
Liabilities and Equity:						
Deposit liabilities	15,021,238	10,267,125	8,531,549	871,958	24,215,891	58,907,761
Accrued expenses and other liabilities	-	-	-	-	1,787,751	1,787,751
Total Liabilities	15,021,238	10,267,125	8,531,549	871,958	26,003,642	60,695,512
Equity	-	-	-	-	9,570,085	9,570,085
Total Liabilities and Equity	15,021,238	10,267,125	8,531,549	871,958	35,573,727	70,265,597
On-book Gap	25,119,777	(4,095,766)	(4,702,182)	8,280,210	(24,602,039)	-
Cumulative On-book Gap	25,119,777	21,024,011	16,321,829	24,602,039	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	1,411,317	1,411,317
Off-book Gap	-	-	-	-	(1,411,317)	(1,411,317)
Net Periodic Gap	25,119,777	(4,095,766)	(4,702,182)	8,280,210	(26,013,356)	(1,411,317)
Cumulative Total Gap	P 25,119,777	P 21,024,011	P 16,321,829	P 24,602,039	(P 1,411,317)	P -

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

(c) Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs VaR methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement; i.e., losses could exceed the VaR in one out of 100 trading days.

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the PDEx and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and ten days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (i) VaR limit on a per instrument and portfolio; (ii) loss limit on per investment portfolio, (iii) off-market rate limits on per instrument type; and, (iv) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

The table below shows the VaR position and ranges of the Bank's financial assets at FVTPL and AFS securities portfolios as at December 31 (amounts in millions).

	2017	2016
VaR Position:		
Financial assets at FVTPL	**P -**	P 4,404
AFS securities	**855**	1,180
VaR Ranges:		
Minimum	**17**	318
Maximum	**4,404**	4,825
Average	**595**	1,758

Stress test on the December 31, 2017 and 2016 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of financial assets at FVTPL and AFS securities as follows:

2017				
		Sensitivities		
Currency	**Current Market Value**	**+100 bps**	**+300 bps**	**+500 bps**
Philippine peso	P 365,226,392	(P 24,835,395)	(P 74,506,184)	(P 124,176,973)
US dollar	2,073,756,448	(196,166,788)	(588,500,365)	(980,833,941)
Total	**P 2,438,982,840**	**(P 221,002,183)**	**(P 663,006,549)**	**(P 1,105,010,914)**

2016				
		Sensitivities		
Currency	Current Market Value	+100 bps	+300 bps	+500 bps
Philippine peso	P 4,240,717,456	(P 290,148,383)	(P 870,445,148)	(P 1,450,741,914)
US dollar	2,845,177,352	(270,291,848)	(810,875,545)	(1,351,459,242)
Total	P 7,085,894,808	(P 560,440,231)	(P 1,681,320,693)	(P 2,802,201,156)

(d) Liquidity Risk

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank's statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equ als the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the ROC prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-book financial position items as of December 31, 2017 and 2016 follows (amounts in thousands).

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
2017					
Resources:					
Cash and other cash items	P 1,002,241	P -	P -	P -	P 1,002,241
Due from BSP	6,575,270	-	-	-	6,575,270
Due from other banks	4,012,519	-	-	-	4,012,519
Trading and investment securities	-	-	77,321	2,361,552	2,438,873
Loans and other receivables	621,570	23,805,844	15,857,374	30,268,008	70,552,796
Other resources*	181,293	343,017	1,543,579	614,257	2,682,146
Total Resources	12,392,893	24,148,861	17,478,274	33,243,817	87,263,845
Liabilities and Equity:					
Deposit liabilities	1,269,750	14,230,983	20,172,409	37,848,875	73,522,017
Bills payable	1,127,543	-	-	806,182	1,933,725
Accrued expenses and other liabilities	1,581,875	-	-	-	1,581,875
Total Liabilities	3,979,168	14,230,983	20,172,409	38,655,057	77,037,617
Equity	-	-	-	10,226,228	10,226,228
Total Liabilities and Equity	3,979,168	14,230,983	20,172,409	48,881,285	87,263,845
On-book Gap	8,413,725	9,917,878	(2,694,135)	(15,637,468)	-
Cumulative On-book Gap	8,413,725	18,331,603	15,637,468	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	-	37,930	-	-	37,930
Off-book Gap	-	(37,930)	-	-	(37,930)
Net Periodic Gap	8,413,725	9,879,948	(2,694,135)	(15,637,468)	37,930
Cumulative Total Gap	**P 8,413,725**	**P18,293,673**	**P15,599,538**	**(P 37,930)**	**P -**

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
2016					
Resources:					
Cash and other cash items	P 1,098,617	P -	P -	P -	P 1,098,617
Due from BSP	6,225,701	-	-	-	6,225,701
Due from other banks	1,633,340	-	-	-	1,633,340
Trading and investment securities	29,961	24,922	1,012	7,030,000	7,085,895
Loans and other receivables	10,200,458	12,256,627	13,583,207	15,396,819	51,437,111
Other resources*	21,410	4,722	105,353	2,653,448	2,784,933
Total Resources	19,209,487	12,286,271	13,689,572	25,080,267	70,265,597
Forward					
Liabilities and Equity:					
Deposit liabilities	39,151,368	10,352,886	8,531,549	871,958	58,907,761
Accrued expenses and other liabilities	1,646,275	2,064	102,668	36,744	1,787,751
Total Liabilities	40,797,643	10,354,950	8,634,217	908,702	60,695,512
Equity	-	-	-	9,570,085	9,570,085
Total Liabilities and Equity	40,797,643	10,354,950	8,634,217	10,478,787	70,265,597
On-book Gap	(21,588,156)	1,931,321	5,055,355	14,601,480	-
Cumulative On-book Gap	(21,588,156)	(19,656,835)	(14,601,480)	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	29,665	587,008	682,635	37,501	1,336,809
Off-book Gap	(29,665)	(587,008)	(682,635)	(37,501)	(1,336,809)
Net Periodic Gap	(21,617,821)	1,344,313	4,372,720	14,563,979	1,336,809
Cumulative Total Gap	(P 21,617,821)	(P 20,273,508)	(P 15,900,788)	(P 1,336,809)	P -

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of assets and liabilities. The MCO measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the Bank's overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO Limits is monitored and reported to the BOD and senior management. In case of breach in the MCO Limit, the Risk Management Center elevates the concern to the BOD through the ROC for corrective action.

Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis.

More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly ALCO meetings.

4.5 Operational Risk

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The ROC applies a number of techniques to efficiently manage operational risks. Among these are enumerated below.

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ROC to keep them up-to-date with different operational risk issues, challenges and initiatives.
- With ROC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).
- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.
- Internal loss information is collected, reported and utilized to model operational risk.
- The ROC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) Reputational Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels or processes may generate adverse public opinion such that it seriously affects the Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Bank adopted a reputation risk monitoring and reporting framework to manage public perception.

(b) Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168. In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, Credit and Collection Department Group Head approval is necessary.

The Bank's procedures for compliance with the AMLA are set out in its MLPP. The Bank's Compliance Officer, through the Anti-Money Laundering Department (AMLD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLD requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

The Compliance Officer regularly reports to the Audit Committee and to the BOD results of their monitoring of AMLA compliance.

5. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. PBB, being a stand-alone thrift bank, is required under BSP regulations to comply with Basel 1.5. Under this regulation, the qualifying capital account of the Bank should not be less than an amount equal to 10% of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
(c) deferred tax asset net of deferred tax liability;
(d) goodwill;
(e) sinking fund for redemption of redeemable preferred shares; and,
(f) other regulatory deductions.

Risk weighted assets is the sum of the Bank's credit risk weighted assets, operational risk weighted assets, and market risk weighted assets. The latter was due to the Bank's authority to engage in derivatives as end-user under a Type 3 Limited End-User Authority. Risk weighted assets are computed using the standardized approach for credit and market risks while basic indicator approach with modification was used for operational risk.

The following are the risk-based capital adequacy of the Bank as of December 31, 2017, 2016 and 2015 (amounts in millions):

	2017	2016	2015
Net Tier 1 Capital	**P 9,809**	P 9,241	P 8,709
Tier 2 Capital	**678**	470	376
Total Qualifying Capital	**P 10,487**	P 9,711	P 9,085
Risk Weighted Assets			
Credit Risk Weighted Assets	**P 68,887**	P 48,738	P 43,382
Operational Risk Weighted Assets	**3,941**	3,930	3,580
Market Risk Weighted Assets	**2,092**	4,477	4,378
Total Risk-Weighted Assets	**P 74,920**	P 57,145	P 51,340
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	**14.0%**	17.0%	17.7%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	**13.1%**	16.2%	17.0%

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

A Bank's regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital equivalent to 50% of the following:

(a) Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

(b) Investments in debt capital instruments of unconsolidated subsidiary banks;

(c) Investments in equity of subsidiary insurance companies and non-financial allied undertakings;

(d) Reciprocal investments in equity of other banks/enterprises; and,

(e) Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Provided, that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

As of December 31, 2017 and 2016, the Bank has no exposure in item (a) to item (e) above. There were no material changes in the Bank's management of capital during the current year.

As of December 31, 2017 and 2016, the Bank has satisfactorily complied with the capital-to-risk assets ratio.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). Thrift banks with head office in the National Capital Region and have more than 50 branches are required to comply with the minimum capital requirement of P2.0 billion. The Bank has complied with the minimum capital requirement at the end of each reporting period.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying values and fair values of those financial assets and financial liabilities in the statements of financial position:

	Notes	**Carrying Values**	**Fair Values**
December 31, 2017:			
Financial Assets			
Loans and receivables:			
Cash and other cash items	9	**P 1,002,240,895**	**P 1,002,240,895**
Due from BSP	9	**6,575,270,040**	**6,575,270,040**
Due from other banks	10	**4,012,519,495**	**4,012,519,495**
Loans and other receivables	14	**70,552,796,381**	**60,760,296,589**
Other resources	17	**90,278,157**	**90,278,157**
AFS securities	12	**2,438,872,511**	**2,438,872,511**
		P 84,671,977,479	**P 74,879,477,687**
Financial Liabilities			
At amortized cost:			
Deposit liabilities	18	**P 73,522,017,415**	**P 73,465,834,285**
Bills payable	19	**1,933,724,724**	**1,933,724,724**
Accrued expenses and other liabilities	20	**1,403,000,937**	**1,403,000,937**
		P 76,858,743,076	**P 76,802,559,946**
December 31, 2016:			
Financial Assets			
Loans and receivables:			
Cash and other cash items	9	P 1,098,616,524	P 1,098,616,524
Due from BSP	9	6,225,701,096	6,225,701,096
Due from other banks	10	1,633,340,396	1,633,340,396
Loans and other receivables	14	51,437,111,465	51,457,318,297
Other resources	17	89,390,653	89,390,653
Financial assets at FVTPL	11	3,274,168,284	3,274,168,284
AFS securities	12	3,811,726,524	3,811,726,524
Derivative financial assets	17	529,631	529,631
		P 67,570,584,573	P 67,590,791,405
Financial Liabilities			
At amortized cost:			
Deposit liabilities	18	P 58,907,760,740	P 58,868,787,593
Accrued expenses and other liabilities	20	1,605,709,712	1,605,709,712
		P 60,513,470,452	P 60,474,497,305

The Bank considers that the carrying amounts of foregoing other financial assets and financial liabilities which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Bank's debt securities are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets of the Bank with net amounts presented in the statements of financial position as of December 31, 2017 and 2016 are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
December 31, 2017				
Loans and receivables				
Receivable from customers	P 2,902	P -	P 2,902	P -
Bills payable	933	933	-	-
Total	P 3,835	P 933	P 2,902	P -
December 31, 2016				
Loans and receivables				
Receivables from customers	P 3,304	P -	P 3,304	P -

The following financial liabilities with net amounts presented in the statements of financial position of the Bank are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

	Financial liabilities	Financial assets available for set-off	Collateral given	Net Amount
December 31, 2017				
Deposits liabilities	P 2,902	P 2,902	P -	P -
Bills payable	1,934	1,934	-	-
Total	P 4,836	P 4,836	P -	P -
December 31, 2016				
Deposit liabilities	P 3,304	P 3,304	P -	P -

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

7.2 Financial Instruments Measured at Fair Value

The table shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2017 and 2016 (amounts in millions).

	Level 1	Level 2	Level 3	Total
December 31, 2017				
AFS securities				
Government debt securities	P 1,490	P 77	P -	P 1,567
Corporate debt securities	872	-	-	872
	P 2,362	P 77	P -	P 2,439
December 31, 2016				
Financial assets at FVTPL				
Government bonds	P 1,043	P 2,231	P -	P 3,274
AFS securities				
Government debt securities	1,381	88	-	1,469
Corporate debt securities	2,341	-	-	2,341
Equity securities	-	-	2	2
	3,722	88	2	3,812
Derivative financial assets	-	1	-	1
	P 4,765	P 2,320	P 2	P 7,087

As of December 31, 2016 (nil as of December 31, 2017), the Bank had an outstanding derivative financial assets presented as part of Miscellaneous under Other Resources account in the statement of financial position (see Note 17). The Bank has no outstanding derivative liabilities as of December 31, 2017 and 2016. Derivative financial assets are categorized within Level 2, and are determined through valuation techniques using the net present value computation.

The fair value of the debt securities of the Bank determined as follows:

(a) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals (Level 1), or the simple average of all firm bids per benchmark tenor or interpolated yields (Level 2). This is consistent with BSP Circular No. 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(b) For other quoted debt securities under Level 1, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

7.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amount in millions).

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Financial Assets:				
Cash and other cash items	**P 1,002**	**P -**	**P -**	**P 1,002**
Due from BSP	**6,575**	**-**	**-**	**6,575**
Due from other banks	**4,013**	**-**	**-**	**4,013**
Loans and other receivable	**-**	**-**	**60,760**	**60,760**
Other financial assets	**90**	**-**	**-**	**90**
	P 11,680	**P -**	**P 60,760**	**P 72,440**
Financial Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 73,466**	**P 73,466**
Bills payable	**-**	**-**	**1,934**	**1,934**
Accrued expenses and other liabilities	**-**	**-**	**1,403**	**1,403**
	P -	**P -**	**P 76,803**	**P 76,803**
December 31, 2016				
Financial Assets:				
Cash and other cash items	P 1,099	P -	P -	P 1,099
Due from BSP	6,226	-	-	6,226
Due from other banks	1,633	-	-	1,633
Loans and other receivable	-	-	51,457	51,457
Other financial assets	89	-	-	89
	P 9,047	P -	P 51,457	P 60,504
Financial Liabilities:				
Deposit liabilities	P -	P -	P 51,457	P 51,457
Accrued expenses and other liabilities	-	-	1,606	1,606
	P -	P -	P 53,063	P 53,063

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) Due from BSP and Other Banks

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(b) Loans and Other Receivables

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(c) Other Financial Assets

Other financial assets pertain to foreign currency notes and coins, security deposits and petty cash fund which are included in the Other Resources account. Due to their short duration, the carrying amounts of these items in the statements of financial position are considered to be reasonable approximation of their fair values.

(d) Deposits and Bills Payable

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits and bills payable already approximate their fair values.

(e) Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities classified as financial liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Due to their short-duration, management ascertained that the fair values of these short-term liabilities approximate their carrying values.

7.4 Fair Value Measurement of Investment Properties Carried at Cost

The total estimated fair values of the Bank's investment properties, categorized under Level 3 of the fair value hierarchy, amounted to P554.6 million and P617.3 million as of December 31, 2017 and 2016, respectively.

The fair value of the investment properties of the Bank was determined on the basis of a valuation carried out on the acquisition dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in highest and best use. Based on management's assessment, the best use of the investment properties indicated above is their current use which is generate positive future cash flows through sale.

The fair value of these investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using observable recent prices of the reference properties adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value. On the other hand, if fair value of the land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, fair value is included in Level 2. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property, minor adjustments on the price is made to consider peculiarities of the property with that of the benchmark property.

(b) *Fair Value Measure for Building and Improvements*

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2017 and 2016.

8. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

(a) *Consumer Banking* – includes auto financing, home financing, and salary or personal loans;

(b) *Corporate Banking* – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

(c) *Treasury Operations* – manages liquidity of the Bank and is a key component in revenue and income generation through its trading and investment activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

8.1 Analysis of Primary Segment Information

The contribution of these various business activities to the Bank's revenues and income for the years 2017, 2016 and 2015 are as follows (amounts in millions):

	Consumer	Corporate	Treasury	Total
2017:				
Revenues				
From external customers				
Interest income	P 276	P 3,395	P 209	P 3,880
Interest expense	(41)	(687)	(114)	(842)
Net interest income	235	2,708	95	3,038
Non-interest income	-	227	139	366
	235	2,935	234	3,404
Expenses				
Operating expenses excluding depreciation and amortization	99	1,919	276	2,294
Depreciation and amortization	7	115	19	141
	106	2,034	295	2,435
Segment operating income (loss)	**P 129**	**P 901**	**(P 61)**	**P 969**
Total resources and liabilities				
Total resources	**P 3,997**	**P 68,874**	**P 14,327**	**P 87,198**
Total liabilities	**P 3,614**	**P 60,642**	**P 10,087**	**P 74,343**
2016:				
Revenues				
From external customers				
Interest income	P 241	P 2,512	P 454	P 3,207
Interest expense	(37)	(521)	(177)	(735)
Net interest income	204	1,991	277	2,472
Non-interest income	7	214	335	556
Total revenue	211	2,205	612	3,028
Expenses				
Operating expenses excluding depreciation and amortization	92	1,376	475	1,943
Depreciation and amortization	8	100	39	147
	100	1,476	514	2,090
Segment operating income (loss)	P 111	P 729	P 98	P 938
Total resources and liabilities				
Total resources	P 3,844	P 50,059	P 16,271	P 70,174
Total liabilities	P 3,021	P 39,780	P 15,503	P 58,304

	Consumer	Corporate	Treasury	Total
2015:				
Revenues				
From external customers				
Interest income	P 205	P 2,441	P 495	P 3,141
Interest expense	(32)	(516)	(209)	(757)
Net interest income	173	1,925	286	2,384
Non-interest income	9	183	70	262
	182	2,108	356	2,646
Expenses				
Operating expenses excluding depreciation and amortization	68	1,238	445	1,751
Depreciation and amortization	6	89	37	132
	74	1,327	482	1,883
Segment operating income (loss)	P 108	P 781	(P 126)	P 763
Total resources and liabilities				
Total resources	P 2,909	P 41,072	P 21,513	P 65,494
Total liabilities	P 2,390	P 37,046	P 15,459	P 54,895

8.2 Reconciliation

Presented below is a reconciliation of the Bank's segment information to the key financial information presented in its consolidated financial statements (amounts in millions).

	2017	2016	2015
Revenue			
Total segment revenues	**P 3,404**	P 3,028	P 2,646
Unallocated income	**22**	15	12
Revenues as reported in profit or loss	**P 3,426**	P 3,043	P 2,658
Profit or loss			
Total segment operating income	**P 969**	P 938	P 763
Unallocated profit	**(56)**	(64)	(58)
Group net profit as reported in profit or loss	**P 913**	P 874	P 705
Resources			
Total segment resources	**P 87,198**	P 70,174	P 65,494
Unallocated assets	**66**	92	88
Total resources	**P 87,264**	P 70,266	P 65,582
Liabilities			
Total segment liabilities	**P 74,343**	P 58,304	P 54,895
Unallocated liabilities	**2,695**	2,392	2,218
Total liabilities	**P 77,038**	P 60,696	P 57,113

The Bank has no intersegment revenues during 2017, 2016 and 2015.

9. CASH AND DUE FROM BSP

This account is composed of the following:

	2017	2016
Cash and other cash items	**P 1,002,240,895**	P 1,098,616,524
Due from BSP		
Mandatory reserves	**5,475,270,040**	4,265,701,096
Other than mandatory reserves	**1,100,000,000**	1,960,000,000
	6,575,270,040	6,225,701,096
	P 7,577,510,935	P 7,324,317,620

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items [other than currency and coins on hand (see Note 17) such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims.

Due from BSP other than mandatory reserves bears annual effective interest rates ranging from 0.0% to 2.5% in 2017, 2016 and 2015. The total interest income earned in 2017, 2016 and 2015 amounted to P24.4 million, P89.1 million and P58.6 million, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2017	2016
Local banks	**P 3,538,289,535**	P 991,507,588
Foreign banks	**474,229,960**	641,832,808
	P 4,012,519,495	P 1,633,340,396

Interest rates on these deposits range from 0.25% to 1.75% per annum in 2017, 2016 and 2015. The total interest income earned in 2017, 2016 and 2015 amounted to P14.1 million, P17.6 million and P11.1 million, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

The breakdown of due from other banks by currency follows:

	2017	2016
US dollars	**P 3,122,079,557**	P 862,128,548
Philippine peso	**890,439,938**	771,211,848
	P 4,012,519,495	P 1,633,340,396

(Amounts in Philippine Pesos or As Otherwise Indicated)

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held-for-trading government securities with fair value amounting to P3,274.2 million as of December 31, 2016. Because of better earning opportunities in other form of investments, management decided to dispose of this financial instrument in 2017; hence, the nil balance as at December 31, 2017. Interest rates on these investments range from 3.5% to 8.0% in 2016 and 4.6% to 6.1% in 2015. The total interest income earned in 2017, 2016 and 2015 amounted to P16.4 million, P23.6 million and P36.7 million, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

The related net unrealized fair value losses, presented as part of Trading Gains in the statements of profit or loss, amounted to P29.1 million and P0.2 million in 2016 and 2015, respectively (nil in 2017). Net realized trading gains amounting to P92.8 million, P53.9 million and P15.9 million in 2017, 2016 and 2015, respectively, for held-for-trading government securities; and P0.005 million and P0.3 million in 2016 and 2015, respectively (nil in 2017), for spot transactions, are presented as part of Trading Gains in the statements of profit or loss.

12. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	2017	2016
Government debt securities	**P 1,566,860,912**	P 1,468,647,204
Corporate bonds – quoted	**872,011,599**	2,341,379,320
Equity securities – unquoted	**-**	1,700,000
	P 2,438,872,511	P 3,811,726,524

As to currency, this account consists of the following:

	2017	2016
Foreign currencies	**P 2,073,756,448**	P 2,796,476,612
Philippine pesos	**365,116,063**	1,015,249,912
	P 2,438,872,511	P 3,811,726,524

The current and non-current portion of this account is shown below.

	2017	2016
Current	**P 77,488,754**	P 57,612,361
Non-current	**2,361,383,757**	3,754,114,163
	P 2,438,872,511	P 3,811,726,524

Changes in the AFS securities are summarized below.

	Notes	**2017**	2016
Balance at beginning of year		**P 3,811,726,524**	P 3,094,538,311
Additions		**3,352,273,750**	1,844,594,612
Disposals		**(4,767,354,091)**	(8,974,015,716)
Fair value gains		**59,748,950**	772,317,899
Foreign currency revaluation		**(8,938,655)**	157,739,246
Amortization of discount (premium)		**(8,583,967)**	126,136,285
Acquired through business acquisition	17.1	**-**	6,602,227
Reclassification from HTM investments	13	**-**	6,085,652,650
Reclassification from Loans and Other Receivables	14	**-**	698,161,010
Balance at end of year		**P 2,438,872,511**	P 3,811,726,524

The reconciliation of unrealized fair value losses on AFS securities reported under equity is shown below.

	2017	2016	2015
Balance at beginning of year	**(P 82,019,677)**	(P 577,298,405)	(P 519,742,021)
Changes on unrealized fair value gains (losses) during the year:			
Fair value gains (losses) during the year	**59,748,950**	(78,227,452)	(53,101,385)
Realized fair value losses (gains) on AFS securities disposed during the year - net	**(29,979,364)**	74,648,222	6,615,377
	29,769,586	(3,579,230)	(46,486,008)
Changes on unrealized fair value gains (losses) on reclassified securities during the year:			
Amortization of fair value gains (losses) on reclassified securities in 2014	**-**	(6,457,719)	(11,070,376)
Fair value gain on HTM investments reclassified to AFS securities in 2016	**-**	850,545,351	-
Realized fair value gains on HTM investments reclassified to AFS securities in 2016	**-**	(345,229,674)	-
	-	498,857,958	(11,070,376)
	29,769,586	495,278,728	(57,556,384)
Balance at end of year	**(P 52,250,091)**	(P 82,019,677)	(P 577,298,405)

AFS securities earn annual interest ranging from 0.0% to 8.125%, from 3.5% to 8.1% and from 3.5% to 9.1% in 2017, 2016, and 2015 respectively. The total interest income earned in 2017, 2016, and 2015 amounted to P153.1 million, P144.8 million and P96.5 million, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

The net fair value gains (losses) recycled to profit or loss from equity resulting from the sale of AFS securities amounted to P35.7 million, P270.6 million, and (P6.6 million) in 2017, 2016 and 2015, respectively. These are included as part of Trading Gains in the statements of profit or loss. Net realized trading gains recognized on the Bank's AFS securities are presented as part of Trading Gains in the 2017, 2016, and 2015 statements of profit or loss, amounted to P35.7 million, P323.6 million and P58.2 million, respectively.

The fair values of AFS securities have been determined directly by reference to published prices in an active market except for the unquoted equity securities of the Bank.

In compliance with current banking regulations relative to the Bank's trust functions, certain AFS securities of the Bank, with a face value of P35.0 million and P55.0 million as of December 31, 2017 and 2016, respectively, are deposited with the BSP (see Note 27).

13. HELD-TO-MATURITY INVESTMENTS

In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments with a carrying value of P6,085.7 million, which consist of local and foreign government securities, and recognized fair value gain amounting to P850.5 million upon reclassification, to AFS securities (see Note 12). The same were subsequently disposed of within the same year.

The changes in the HTM investments in 2016 are summarized below.

Balance at beginning of year	P 5,948,727,495
Amortization of discount	134,573,681
Foreign currency revaluation	2,351,474
Reclassification (see Note 12)	(6,085,652,650)
Balance at end of year	P -

The effective interest rates on these investments ranges from 5.3% to 8.1% per annum in 2016 and 2015. The total interest income earned from these investments amounted to P179.1 million and P291.6 million in 2016 and 2015, respectively, and is shown as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

On May 29, 2014, the Bank reclassified certain government debt securities from AFS securities to HTM investments with a market value of P5,623.6 million at the date of reclassification. The annual effective interest rates of the reclassified securities ranges from 5.3% to 8.1%. The unrealized fair value loss on the reclassified securities amounting to P511.6 million was retained in other comprehensive income and were amortized over the remaining life of the HTM investments and was consequently recognized to profit or loss upon sale. The amortization of unrealized fair value loss amounted to P6.5 million and P11.1 million in 2016 and 2015, respectively, and was presented as part of Trading Gains in the statements of profit or loss. The book value and unamortized fair value losses related to these debt securities as of December 31, 2015 amount to P5,581.6 million and P498.9 million, respectively (see Note 12). There was no reclassification of AFS to HTM in 2016 and 2015.

14. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	2017	2016
Receivables from customers:		
Loans and discounts	P 66,993,743,115	P 47,420,972,014
Unearned discount	(120,049,688)	(113,369,104)
	66,873,693,427	47,307,602,910
Bills purchased	366,130,161	795,456,486
Customers' liabilities on acceptances, letters of credit and trust receipts	3,577,720,164	3,753,026,077
	70,817,543,752	51,856,085,473
Other receivables:		
SPURRA	826,072,472	345,154,260
Accrued interest receivable	207,680,908	190,096,143
Deficiency claims receivable	55,056,218	56,313,445
Accounts receivable	41,032,917	109,184,904
Sales contracts receivable	35,934,861	95,987,214
Unquoted debt securities	25,923,421	17,958,315
	1,191,700,797	814,694,281
	72,009,244,549	52,670,779,754
Allowance for impairment	(1,456,448,168)	(1,233,668,289)
	P 70,552,796,381	P 51,437,111,465

In 2016, the Bank reclassified to AFS securities certain corporate debt securities previously included as part of Unquoted debt securities above amounting to P698.2 million (see Note 12). There was no similar transaction in 2017.

SPURRA are secured by certain treasury bills of the BSP. SPURRA represent loans and receivables from BSP as of December 31, 2017 and 2016 arise from overnight lending from excess liquidity.

As of December 31, 2016, Accounts receivable includes P36.7 million set up by the Bank for the final tax withheld by the Bureau of Treasury (BTr) subject to the resolution of a case filed with the Supreme Court (SC) on the matter. On various dates in 2002, the Bank purchased P259.0 million face value of the 10-year Poverty Eradication and Alleviation Certificates (PEACe) bonds, which were issued by the BTr in 2001, with the understanding that these were tax-exempt. However, when the bonds matured on October 18, 2011, the BTr withheld final tax on them; hence, a petition for the release of the amount withheld was made by the Bank together with other banks. On January 13, 2015, the SC nullified the 2011 Rulings of the Bureau of Internal Revenue (BIR) classifying all bonds as deposit substitutes and ordered the BTr to return to the petitioning banks the 20% final withholding taxes that it withheld on the PEACe Bonds. On August 16, 2016, the SC ordered the BTr to immediately release and pay the bondholders the amount representing the 20% final withholding tax on the PEACe bonds, plus the corresponding legal interest of 6% per annum from October 19, 2011 until full payment. On April 11, 2017, BTr released to the Bank the whole amount withheld, plus P8.1 million legal interest which is presented as part of Interest Income on Loans and Other receivable in the 2017 statement of profit or loss.

Non-performing loans of the Bank amount to P1,504.5 million and P1,322.3 million as of December 31, 2017 and 2016, respectively, while restructured loans amount to P40.6 million and P41.6 million, respectively.

A summary of the Bank's maximum exposure to credit risk on loans and other receivables is disclosed in Note 4.3.

An analysis of the maturity profile of the Bank's receivables from customers, gross of allowance, follows (amounts in thousands):

	2017	2016
Within one year	P 38,358,514	P 32,346,925
Beyond one year	32,579,079	19,622,530
	P 70,937,593	P 51,969,455

The Bank's concentration of credit as to industry for its receivables from customers portfolio, gross of allowance, follows (amounts in thousands):

	2017	2016
Wholesale and retail trade	P 25,028,390	P 19,506,311
Construction	19,435,728	9,782,858
Manufacturing	7,659,280	7,483,404
Administrative and support services	7,155,130	5,857,043
Transportation and storage	5,916,230	3,714,512
Electricity, gas, steam and air-conditioning supply	4,697,583	3,649,578
Agriculture, fishery and forestry	861,697	429,132
Mining and quarrying	171,610	175,077
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	11,945	1,371,540
	P 70,937,593	P 51,969,455

As to security, receivable from customers, gross of allowance, are classified into the following (amounts in thousands):

	Note	2017	2016
Secured:			
Real estate mortgage		P 28,816,083	P 20,230,413
Chattel mortgage		4,860,906	4,429,479
Deposit hold-out	6.2	2,901,898	3,303,931
Others		782,717	208
Unsecured		33,575,989	24,005,424
		P 70,937,593	P 51,969,455

The changes in the allowance for impairment on loans and other receivables are summarized below.

	2017	2016
Balance at beginning of year	P 1,233,668,289	P 1,076,625,132
Impairment losses for the year	259,529,817	157,043,157
Reversal of allowance for impairment	(36,749,938)	-
Balance at end of year	P 1,456,448,168	P 1,233,668,289

(Amounts in Philippine Pesos or As Otherwise Indicated)

Reversal of allowance for impairment pertains to the recovery of the accounts receivables, which has been fully provided with allowance, set-up for the amount improperly withheld on the PEACe bonds.

Of the total loans and discounts of the Bank as of December 31, 2017 and 2016, 81.0% and 75.38%, respectively, are subject to periodic interest repricing.

The annual effective interest rates of loans and discounts range from 0.8% to 72.9% in 2017, 1.3% to 30.0% in 2016 and 1.7% to 26.0% in 2015, while the annual effective interest rates of interest-bearing other receivables range from 2.0% to 8.59% in 2017, 3.0% to 4% in 2016 and 4.0% to 16% in 2015. The total interest income earned from loans and discounts amounted to P3,631.7 million, P2,570.2 million and P2,457.3 million in 2017, 2016 and 2015, respectively, while total interest income earned from interest-bearing other receivables amounted to P40.7 million, P182.8 million and P188.8 million in 2017, 2016 and 2015, respectively. These are presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

Loans receivables pledged as collaterals to secure borrowings under rediscounting privileges amount to P932.5 million as of December 31, 2017 (nil as of December 31, 2016) (see Note 19).

15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016 are shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
December 31, 2017						
Cost	**P 90,802,205**	**P 118,392,293**	**P 453,608,640**	**P 154,979,127**	**P 545,555,882**	**P1,363,338,147**
Accumulated depreciation and amortization	**-**	**(51,867,987)**	**(311,120,293)**	**(86,070,295)**	**(427,640,386)**	**(876,698,961)**
Net carrying amount	**P 90,802,205**	**P 66,524,306**	**P 142,488,347**	**P 68,908,832**	**P 117,915,496**	**P 486,639,186**
December 31, 2016						
Cost	P 89,848,156	P 118,429,528	P 412,938,957	P 148,470,474	P 528,612,606	P1,298,299,721
Accumulated depreciation and amortization	-	(48,493,151)	(266,048,782)	(83,554,014)	(364,208,136)	(762,304,083)
Net carrying amount	P 89,848,156	P 69,936,377	P 146,890,175	P 64,916,460	P 164,404,470	P 535,995,638
January 1, 2016						
Cost	P 84,327,556	P 109,343,864	P 370,921,928	P 130,418,587	P 486,983,266	P1,181,995,201
Accumulated depreciation and amortization	-	(36,053,768)	(218,191,093)	(71,265,077)	(293,850,541)	(619,360,479)
Net carrying amount	P 84,327,556	P 73,290,096	P 152,730,835	P 59,153,510	P 193,132,725	P 562,634,722

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016 is shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	**P 89,848,156**	**P 69,936,377**	**P 146,890,175**	**P 64,916,460**	**P 164,404,470**	**P 535,995,638**
Additions (see Note 17.1)	**954,049**	**95,000**	**47,084,886**	**36,530,060**	**18,174,298**	**102,838,293**
Disposals	**-**	**(121,341)**	**(5,641,260)**	**(7,802,619)**	**(1,967,342)**	**(15,532,562)**
Depreciation and amortization charges for the year	**-**	**(3,385,730)**	**(45,845,454)**	**(24,735,069)**	**(62,695,930)**	**(136,662,183)**
Balance at December 31, 2017, net of accumulated depreciation and amortization	**P 90,802,205**	**P 66,524,306**	**P 142,488,347**	**P 68,908,832**	**P 117,915,496**	**P 486,639,186**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 84,327,556	P 73,290,096	P 152,730,835	P 59,153,510	P 193,132,725	P 562,634,722
Additions (see Note 17.1)	5,520,600	1	53,995,845	39,052,918	50,030,153	148,599,517
Disposals	-	-	(13,761,821)	(8,181,975)	(11,728,207)	(33,672,003)
Depreciation and amortization charges for the year	-	(3,353,720)	(46,074,684)	(25,107,993)	(67,030,201)	(141,566,598)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 89,848,156	P 69,936,377	P 146,890,175	P 64,916,460	P 164,404,470	P 535,995,638

As of December 31, 2017 and 2016, the cost of the Bank's fully depreciated bank premises, furniture, fixtures and equipment that are still used in operations amounts to P160.7 million and P94.0 million, respectively.

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2017 and 2016, the Bank has satisfactorily complied with this requirement.

(Amounts in Philippine Pesos or As Otherwise Indicated)

16. INVESTMENT PROPERTIES

Investment properties consist of various parcels of land, and buildings and improvements acquired through foreclosure or dacion for the settlement of outstanding loans of borrowers who are unable to pay their loan in cash.

The gross carrying amounts and accumulated depreciation and allowance for impairment of investment properties at the beginning and end of 2017 and 2016 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2017			
Cost	**P 394,712,982**	**P 143,032,494**	**P 537,745,476**
Accumulated depreciation	**-**	**(85,652,200)**	**(85,652,200)**
Allowance for impairment	**(26,551,861)**	**(2,192,994)**	**(28,744,855)**
Net carrying amount	**P 368,161,121**	**P 55,187,300**	**P 423,348,421**
December 31, 2016			
Cost	P 390,539,220	P 153,159,794	P 543,699,014
Accumulated depreciation	-	(66,564,578)	(66,564,578)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	P 363,987,359	P 84,402,222	P 448,389,581
January 1, 2016			
Cost	P 620,444,728	P 138,104,027	P 758,548,755
Accumulated depreciation	-	(54,033,276)	(54,033,276)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	P 593,892,867	P 81,877,757	P 675,770,624

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2017 and 2016 is shown below.

	Land	Buildings and Improvements	Total
Balance at January 1, 2017, net of accumulated depreciation and impairment	**P 363,987,359**	**P 84,402,222**	**P 448,389,581**
Additions	**47,140,723**	**10,645,458**	**57,786,181**
Disposals	**(42,966,961)**	**(30,612,599)**	**(73,579,560)**
Depreciation for the year	**-**	**(9,247,781)**	**(9,247,781)**
Balance at December 31, 2016, net of accumulated depreciation and impairment	**P 368,161,121**	**P 55,187,300**	**P 423,348,421**
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 593,892,867	P 81,877,757	P 675,770,624
Additions (see Note 17.1)	160,502,233	31,025,079	191,527,312
Disposals	(390,407,741)	(16,994,890)	(407,402,631)
Depreciation for the year	-	(11,505,724)	(11,505,724)
Balance at December 31, 2016, net of accumulated depreciation and impairment	P 363,987,359	P 84,402,222	P 448,389,581

In 2017, 2016 and 2015, gains on sale of investment properties amounted to P15.2 million, P13.2 million and P15.0 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 22.1). Expenses incurred on investment properties include real property taxes and depreciation. Real property taxes incurred on these investment properties amounted to P9.3 million, P12.1 million and P35.0 million in 2017, 2015 and 2016, respectively, and are presented as part of Miscellaneous, as Litigation on asset acquired, under Other Expenses in the statements of profit or loss (see Note 22.2). Depreciation recognized in 2017, 2016, as shown above, and 2015 were included in Depreciation and Amortization under Other Expenses in profit or loss.

The total estimated fair values of the Bank's investment properties amount to P554.6 million and P617.3 million as of December 31, 2017 and 2016, respectively (see Note 7.4).

17. OTHER RESOURCES

This account consists of the following as of December 31:

	Notes	2017	2016
Other investments	17.1	**P 575,030,000**	P 669,579,319
Deferred tax assets – net	25	**493,343,661**	413,836,354
Branch licenses	17.2	**250,380,060**	249,987,660
Goodwill	17.3	**121,890,408**	109,392,041
Due from head office or branches		**70,311,672**	74,862,587
Foreign currency notes and coins on hand		**60,144,407**	59,387,782
Computer software – net		**45,868,442**	51,792,167
Prepaid expenses		**30,175,044**	35,237,702
Security deposits		**29,782,252**	29,660,825
Stationery and supplies		**14,905,921**	13,063,971
Deferred charges	17.4	**13,383,687**	13,383,687
Sundry debits		**3,819,865**	23,250,933
Retirement benefit asset	23.2	**1,202,348**	8,550,906
Miscellaneous	17.4	**76,958,649**	63,599,920
		1,787,196,416	1,815,585,854
Allowance for impairment	17.4	**(15,038,424)**	(15,038,424)
		P 1,772,157,992	P 1,800,547,430

The Bank recognized impairment loss on its other resources amounting to P1.6 million in 2015 (nil in 2017 and 2016).

The current and non-current portion of this account is shown below.

	2017	2016
Current	**P 189,487,993**	P 236,155,265
Non-current	**1,582,669,999**	1,564,392,165
	P 1,772,157,992	P 1,800,547,430

Movements of computer software is shown below.

	2017	2016
Balance at beginning of year	**P 51,792,167**	P 56,151,749
Additions	**16,556,063**	14,989,422
Amortization	**(22,479,788)**	(19,349,004)
Balance at end of year	**P 45,868,442**	P 51,792,167

17.1 Other Investments

(a) *Acquisition of Shares of Insular Savers Bank, Inc.*

In July 2015, the Bank's BOD approved the acquisition of all outstanding shares of Insular Savers Bank, Inc. (ISBI), which is still subject to BSP's approval as at December 31, 2017, with an agreed initial purchase price of P518.2 million. Of this purchase price, the Bank directly paid P101.2 million to the shareholders of ISBI and deposited P417.0 million with the designated escrow agent. In 2016, the agreed purchase price was increased by P82.5 million but was subsequently reduced by P25.7 million in 2017 because of the revaluation of ISBI which brings the agreed purchase price to P575.0 million as at December 31, 2017 from P549.3 million as at December 31, 2016. As of December 31, 2016 and 2015, the Bank has already released from the escrow fund P252.9 million and P105.1 million, respectively, as payment for the ISBI shares. The unpaid balance of the purchase price (i.e., net of amounts released from the escrow fund and direct payment made) is presented as part of Accounts payable under Accrued Expenses and Other Liabilities in the statements of financial position (see Note 20). Because of the pending BSP approval, the total acquisition price is temporarily lodged as part of Other investments under Other Resources.

(b) *Purchase of Assets and Assumption of Liabilities of Bataan Savings and Loan Bank, Inc.*

In July 2015, the Bank entered into a Sale and Purchase Agreement with Bataan Savings and Loan Bank, Inc. (BLSB), whereby the Bank shall acquire all the assets of BLSB and assume the payment of all its obligation. The agreed purchase price was P68.8 million which has been fully paid by the Bank in 2015. As of December 31, 2016, the transaction is still subject to BSP approval and, as such, the purchase price was temporarily lodged as part of Other investments under Other Resources in the 2016 statement of financial position. On July 12, 2017, the BSP approved the acquisition.

Upon BSP's approval of the transaction, the Bank recognized the following assets and liabilities of BLSB at their approximate fair values (amount in thousands) resulting in the recognition of P12.5 million goodwill:

Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and cash equivalents	P	215,165
Trading and investment securities		1,243
Loans and other receivables		7,014
Bank premises, furniture, fixtures and equipment		991
Other resources		136
Total assets		224,549
Deposit liabilities	P	166,726
Other liabilities		1,488
Total liabilities		168,214
Net asset position		56,335
Cash consideration given		68,833
Goodwill (see Note 17.3)	P	12,498

Management's assessment showed that because the net assets are composed of short-term financial instruments and those that are non-financial instruments are not material, the carrying value of the assets and liabilities at the time of consummation of the acquisition is an approximation of their fair value.

(c) *Purchase of Assets and Assumption of Liabilities of Rural Bank of Kawit (RBK)*

In September 2014, as part of the Bank's expansion strategy, the BOD approved the acquisition of all the assets and assumption of all the obligation of RBK in exchange for P15.0 million. The approval of the BSP was not obtained until 2016; hence, the acquisition price was temporarily lodged as part of Other investments under Other Resources. Upon approval by the BSP on February 1, 2016, the Bank recognized the following assets and liabilities of RBK at their fair values (amounts in thousands), resulting in the recognition of P59.9 million goodwill.

Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash and cash equivalents	P	29,323
Trading and investment securities		6,602
Loans and other receivables		94,332
Bank premises, furniture, fixtures and equipment		5,616
Investment properties		15,840
Other resources		3,025
Total assets		154,738
Deposit liabilities		155,913
Other liabilities		43,339
Total liabilities		199,252
Net liability position		44,514
Cash consideration given		15,000
Goodwill (see Note 17.3)	P	59,514

17.2 Branch Licenses

In 2016, the Bank have opened various branches in the CAMANAVA, Vis-Min Area and Central Luzon area which total cost of branch licenses amounted to P1.7 million.

On February 27, 2014, the Bank received an approval from the BSP regarding its application for new licenses. This is in line with the Bank's branch expansion program for which it has allocated a portion of its IPO proceeds to cover the cost of new licenses in the following areas plus processing fees which amounted to a total of P2.2 million: CAMANAVA, Vis-Min Area, Central Luzon and Southern Luzon.

In November 2011, the Monetary Board of BSP approved the request of the Bank to establish 15 branches in selected restricted cities in Metro Manila for a total consideration of P226.5 million which was paid by the Bank to the BSP in January 2012.

In December 2011, the Bank acquired four licenses from Prime Savings Bank, Inc. for a total consideration of P20.0 million.

17.3 Goodwill

Goodwill arose from the following acquisitions:

	Notes		2017		2016
RBK	17.1(c)	**P**	**59,513,648**	P	59,513,648
Kabalikat Rural Bank, Inc. (KRBI)			**49,878,393**		49,878,393
BLSB	17.1(b)		**12,498,367**		-
		P	**121,890,408**	P	109,392,041

KRBI, which is located in Sta. Maria Bulacan, Philippines, was acquired in 2010.

The movements of this account are as follows:

	Note	2017	2016
Balance at beginning of year		**P 109,392,041**	P 49,878,393
Acquisition during the year	17.1(b) and (c)	**12,498,367**	59,513,648
Balance at end of year		**P 121,890,208**	P 109,392,041

The Bank acquired the foregoing smaller banks with the objective of availing the branch incentives under the Strengthening Program for Rural Bank Plus; and, its expected future economic benefits and synergies that will result from incorporating the operations of these acquired rural banks with that of the Bank which expands its presence in the small and medium enterprise market. Accordingly, the Bank acquired them at a premium resulting in the recognition of goodwill.

As indicated in Notes 2.19 and 3.2(f), goodwill is tested for impairment annually. In 2017 and 2016, using interest rates of 4.7% and 4.5%, respectively, management estimates the expected future cash flows from each branches where the goodwill arises from and the Bank has assessed that the carrying amount of the goodwill is recoverable. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

17.4 Others

Deferred charges amounting to P13.4 million as of December 31, 2017 and 2016 pertain to prepaid final taxes from prior years that are fully provided with allowance since the Bank has assessed that these prepaid taxes are no longer recoverable.

Other properties held for sale, which pertain to various personal properties (included under Miscellaneous) amount to P9.2 million and P6.8 million as of December 31, 2017 and 2016, respectively. Additions to other properties held for sale, as a result of foreclosure, amounted to P5.1 million and P16.2 million in 2017 and 2016, respectively. In 2017, 2016 and 2015, certain properties with a book value of P2.7 million, P14.7 million and P0.5 million, respectively, were sold. Gain on the disposal of the assets amounted to P5.9 million, P1.7 million and P0.2 million in 2017, 2016 and 2015, respectively, and was presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 22.1).

18. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

	2017	2016
Within one year	**P 71,593,063,292**	P 57,569,682,714
Beyond one year	**1,928,954,123**	1,338,078,026
	P 73,522,017,415	P 58,907,760,740

The classification of the Bank's deposit liabilities as to currency follows:

	2017	2016
Philippine peso	**P 68,058,769,464**	P 54,102,014,779
Foreign currencies	**5,463,247,951**	4,805,745,961
	P 73,522,017,415	P 58,907,760,740

Annual interest rates on deposit liabilities range from 0.3% to 2.9% in 2017 and 2016, and from 0.3% to 2.8% in 2015.

Deposit liabilities as of December 31, 2017 and 2016 include those that are from DOSRI as of December 31, 2017 and 2016 (see Note 24).

Under existing BSP regulations, the Bank is subject to reserve requirement equivalent to 8.0% of non-FCDU deposit liabilities. On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the recent amendment, cash and other cash items are no longer considered as eligible reserves. The Bank's available reserves as of December 31, 2017 and 2016 amount to P5,475.3 million and P4,265.7 million, respectively, and is in compliance with these regulations with the BSP requirement (see Note 9).

19. BILLS PAYABLE

In 2017, the Bank obtained bills payable and, as of December 31, 2017, its outstanding bills payable amounting to P932.5 million and P1.0 billion, respectively, which have annual interest rates ranging from 3.5% to 3.8%, include those from the BSP and other banks. The bills payable are denominated in Philippine pesos and have maturities of less than one year. The Bank has no outstanding bills payable as of December 31, 2016 because the carryover balance of bills payable as at December 31, 2015 was settled in 2016.

The total interest expense incurred in 2017, 2016 and 2015 amounted to P14.8 million, P0.01 million and P3.3 million, respectively, and these are presented as Interest Expense on Bills Payable in the statements of profit or loss.

Presented below is the reconciliation of the Bank's bills payable as of December 31, 2017.

Balance at beginning of year	P -
Proceeds of borrowings	6,424,212,200
Repayments	(4,490,487,476)
Balance at end of year	**P 1,933,724,724**

As of December 31, 2017, bills payable are secured with certain Bank's loans and receivables (see Notes 6.2 and 14).

20. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	2017	2016
Accounts payable	17.1(a)	**P 452,617,596**	P 384,660,807
Bills purchased		**355,563,117**	784,889,441
Manager's checks		**242,451,472**	138,410,956
Accrued expenses		**239,720,661**	162,144,193
Income tax payable		**138,803,669**	126,568,663
Withholding taxes payable		**40,070,165**	32,984,845
Outstanding acceptances		**22,183,416**	41,652,264
Due to BSP		**18,023,886**	13,634,370
Dividends payable	21.2	**-**	79,200,000
Others		**72,440,789**	23,605,800
		P 1,581,874,771	P 1,787,751,339

The current and non-current portion of this account is shown below.

	2017	2016
Current	**P 972,248,647**	P 1,322,277,949
Non-current	**609,626,124**	465,473,390
	P 1,581,874,771	P 1,787,751,339

Bills purchased pertain to availments of the bills purchase line which are settled on the third day from the transaction date.

Accrued expenses include primarily accruals on employee benefits, utilities, janitorial and security services fees.

Outstanding acceptances pertain to obligations recognized by the Bank in its undertaking arising from letters of credit extended to its borrowers.

(Amounts in Philippine Pesos or As Otherwise Indicated)

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

	Number of Shares 2017	Number of Shares 2016	Amount 2017	Amount 2016
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued and outstanding	**62,000,000**	62,000,000	**P 620,000,000**	P 620,000,000
Common shares – P10 par value				
Authorized – 870,000,000 shares				
Issued and outstanding				
Balance at beginning of year	**536,458,437**	536,458,437	**P5,364,584,370**	P 5,364,584,370
Stock dividends (see Note 21.2)	**107,291,657**	-	**1,072,916,570**	-
Balance at end of year	**643,750,094**	536,458,437	**P6,437,500,940**	P 5,364,584,370

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8.0% per annum.

On February 17, 2016, the BOD approved the redemption of all the issued and outstanding preferred shares of the Bank at par value of P620.0 million through staggered redemption. However, as at December 31, 2017 and 2016, none of the preferred shares have been redeemed yet and the Bank is now considering conversion of the preferred shares to common shares instead. Both options require regulatory approvals.

On January 9, 2013, the PSE approved the Bank's application for the listing of its common shares. The approval covered the IPO of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013, its day of listing. The Bank offered its 101,333,400 unissued common to the public at the approved P31.50 per share resulting in the recognition of additional paid-in capital of P1,998.4 million, net of transactions costs (see Note 21.4).

As of December 31, 2017 and 2016, the Bank has 71 and 65 holders, respectively, of its listed common stock. The Bank has 643,750,094 and 536,458,437 common shares traded in the PSE as of December 31, 2017 and 2016 and its share price closed at P11.98 and P14.36 as at the same date, respectively.

21.2 Dividends

On March 15, 2017, the BOD approved the declaration of 20% stock dividend on common shares totaling 107.3 million or P1,072.9 million to stockholders of record as of August 4, 2017 and paid on August 18, 2017. The dividend distribution was approved by the stockholders on May 26, 2017.

On December 29, 2016, the Bank's BOD approved the declaration of cash dividends on preferred shares amounting to P79.2 million which is presented as Dividends payable under the Accrued Expenses and Other Liabilities account in the 2016 statement of financial position (see Note 20). This dividend payable has been fully paid during 2017.

On April 15, 2015, the BOD approved the declaration of stock dividend on common shares totaling 107.3 million or P1.1 billion to stockholders of record as of September 15, 2015 and paid on October 8, 2015. The dividend distribution was approved by the stockholders and the BSP on May 29, 2015 and July 23, 2015, respectively.

21.3 Appropriated Surplus

In 2017, 2016 and 2015, additional appropriations of surplus amounting to P1.1 million, P1.2 million and P1.4 million, respectively, representing portion of the Bank's income from trust operations were made in compliance with BSP regulations (see Note 27).

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. As of December 31, 2017 and 2016, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

21.4 Paid-in Capital from IPO

As mentioned in Note 21.1, the Bank's common shares were listed at the PSE in February 2013. The total proceeds received from the IPO amounted to P3,191.9 million which exceeded par value by P1,998.4 million, net of share issuance cost of P180.2 million. The excess over par value is presented as Additional Paid-in Capital in the statements of financial position.

21.5 Revaluation Reserves

Revaluation reserves pertain to the accumulated actuarial losses of post-employment defined benefit plan (see Note 23.2) and unrealized fair value losses on AFS securities (see Note 12).

	Unrealized Fair Value Losses on AFS Securities	Accumulated Actuarial Losses	Total
Balance at January 1, 2017	(P 82,019,677)	(P 12,757,016)	(P 94,776,693)
Fair value gains on AFS securities during the year	59,748,950	-	59,748,950
Fair value losses reclassified to profit or loss	(29,979,364)	-	(29,979,364)
Remeasurements of post-employment defined benefit plan	-	(19,589,334)	(19,589,334)
Other comprehensive income before tax	(52,250,091)	(32,346,350)	(84,596,441)
Tax income	-	5,876,800	5,876,800
Balance at December 31, 2017	**(P 52,250,091)**	**(P 26,469,550)**	**(P 78,719,641)**
Balance at January 1, 2016	(P 577,298,405)	(P 28,586,105)	(P 605,884,510)
Fair value gains on AFS securities during the year	772,317,899	-	772,317,899
Fair value losses reclassified to profit or loss	(270,581,452)	-	(270,581,452)
Amortization of fair value losses on reclassified securities	(6,457,719)	-	(6,457,719)
Remeasurements of post-employment defined benefit plan	-	22,612,985	22,612,985
Other comprehensive income before tax	(82,019,677)	(5,973,120)	(87,992,797)
Tax expense	-	(6,783,896)	(6,783,896)
Balance at December 31, 2016	(P 82,019,677)	(P 12,757,016)	(P 94,776,693)

22. MISCELLANEOUS INCOME AND EXPENSES

22.1 Miscellaneous Income

This include the following:

	Notes	2017	2016	2015
Gain on sale of properties – net	16, 17.4	**P 21,104,197**	P 14,957,797	P 15,028,632
Trust fees	27	**11,182,180**	11,901,649	13,874,866
Loss on foreclosure - net		**-**	-	(2,480,845)
Others		**14,861,310**	57,874,929	47,008,310
		P 47,147,687	P 84,734,375	P 73,430,963

Others include penalty on loans, foreign currency43 gains or losses and rental of safe/night deposit box.

(Amounts in Philippine Pesos or As Otherwise Indicated)

22.2 Miscellaneous Expense

This include the following:

	Notes	2017	2016	2015
Transportation and travel		**P 97,444,635**	P 96,504,349	P 90,613,557
Fines, penalties and other charges		**91,399,481**	39,600,153	2,407,469
Communication		**46,063,281**	36,024,924	28,225,214
Banking fees		**23,207,790**	22,528,788	26,472,435
Amortization of software licences	17	**21,771,487**	19,386,217	18,184,042
Advertising and publicity		**15,128,405**	7,494,481	9,824,351
Information technology		**12,630,837**	10,752,537	9,373,418
Office supplies		**12,324,174**	13,374,619	13,647,334
Litigation on asset acquired	16	**9,254,859**	12,053,842	35,032,847
Amortization of deferred charges		**6,556,401**	2,731,845	-
Donations and contributions		**6,051,921**	2,050,658	161,806
Freight		**2,931,697**	3,226,217	3,697,495
Membership dues		**1,609,507**	2,740,285	2,273,029
Others		**32,973,601**	27,504,539	26,603,506
		P 379,348,076	P 295,973,454	P 266,516,503

Others include brokerage fees, commissions, appraisal and processing fees incurred by the Bank.

23. EMPLOYEE BENEFITS

23.1 Salaries and Other Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are broken down below.

	Note	2017	2016	2015
Salaries and wages		**P 443,200,726**	P 383,868,028	P 324,688,012
Bonuses		**29,419,622**	23,545,447	98,262,420
Post-employment defined benefit plan	23.2	**25,930,263**	27,422,063	23,344,826
Social security costs		**24,228,311**	22,051,522	18,922,253
Short-term medical benefits		**613,216**	518,914	223,416
Other short-term benefits		**212,420,361**	178,117,917	78,005,801
		P 735,812,499	P 635,523,891	P 543,446,728

23.2 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by the Bank's trust department that is legally separated from the Bank. The Bank's Retirement Plan Committee, in coordination with the Bank's trust department, who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2017 and 2016.

The amounts of post-employment defined benefit asset (see Note 17) recognized in the statements of financial position are determined as follows:

	2017	2016
Fair value of plan assets	**P 205,904,139**	P 181,260,159
Present value of the defined benefit obligation	**(204,633,257)**	(172,249,214)
Effect of the asset ceiling	**(68,534)**	(460,039)
	P 1,202,348	P 8,550,906

The movements in the present value of the post-employment defined benefit obligation are as follows:

	2017	2016
Balance at beginning of year	**P 172,249,214**	P 172,423,348
Current service cost	**25,930,263**	27,422,063
Interest expense	**9,267,008**	8,431,502
Remeasurements:		
Actuarial losses (gains) arising from changes in:		
Experience adjustments	**20,013,938**	3,502,031
Demographic assumptions	**(4,173,390)**	(43,677,175)
Financial assumptions	**(2,976,570)**	10,267,235
Benefits paid	**(15,677,206)**	(6,119,790)
Balance at end of year	**P 204,633,257**	P 172,249,214

The movements in the fair value of plan assets are presented below.

	2017	2016
Balance at beginning of year	**P 181,260,159**	P 149,034,915
Contributions to the plan	**37,133,819**	37,133,819
Interest income	**10,328,979**	8,046,100
Return on plan assets (excluding amounts included in net interest)	**(7,141,612)**	(6,834,885)
Benefits paid	**(15,677,206)**	(6,119,790)
Balance at end of year	**P 205,904,139**	P 181,260,159

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2017	2016
Cash and cash equivalents	**P 43,514,685**	P 57,196,247
Government bonds	**123,655,184**	100,147,102
Corporate bonds	**23,659,300**	15,692,733
Equity instruments	**14,376,000**	7,840,560
Accrued interest	**698,970**	383,517
	P 205,904,139	P 181,260,159

(Amounts in Philippine Pesos or As Otherwise Indicated)

The fair values of the above equity instruments, government and other bonds are determined based on quoted market prices in active markets.

The plan assets earned actual return of P3.2 million and P1.2 million in 2017 and 2016, respectively.

Plan assets include certain financial instruments of the Bank (see Note 24.3).

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2017	2016	2015
Reported in profit or loss:			
Current service cost	**P 25,930,263**	P 27,422,063	P 23,344,826
Net interest expense (income)	**(1,037,221)**	385,402	1,082,509
	P 24,893,042	P 27,807,465	P 24,427,335
Reported in other comprehensive income:			
Actuarial losses (gains) arising from changes in:			
Experience adjustments	**P 20,013,938**	P 3,502,031	(P 1,639,231)
Demographic assumptions	**(4,173,390)**	(43,677,175)	-
Financial assumptions	**(2,976,570)**	10,267,235	5,201,633
Return on plan assets (excluding amounts included in net interest expense)	**7,141,612**	6,834,885	(7,277,724)
Effect of the asset ceiling	**(416,256)**	460,039	-
	P 19,589,334	(P 22,612,985)	(P 3,715,322)

Current service cost is presented as part Salaries and Other Employee Benefits (see Note 23.1) under the caption Other Expenses while net interest income in 2017 and net interest expense in 2016 and 2015 is presented as Interest Income and Expense – Others in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2017	2016	2015
Discount rates	**5.70%**	5.38%	4.9%
Expected rate of salary increases	**8.0%**	8.0%	6.0%
Employee turnover	**14.0%**	19.0%	7.5%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 32 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit asset as of December 31, 2017 and 2016:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2017			
Discount rate	**+4.7%/-4.3%**	**P 8,725,892**	**(P 9,624,779)**
Salary rate	**+3.7%/-3.4%**	**(7,551,671)**	**6,992,089**
Increase in DBO if no attrition rate	**+70.7%**	**144,574,435**	**-**
December 31, 2016			
Discount rate	+5.7%/-5.1%	P 8,715,688	(P 9,737,183)
Salary rate	+4.7%/-4.3%	(8,040,911)	7,375,233
Increase in DBO if no attrition rate	+52.0%	89,549,497	-

The sensitivity analysis discussed in the preceding page is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(Amounts in Philippine Pesos or As Otherwise Indicated)

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank through its Retirement Plan Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

As of December 31, 2017 and 2016, the plan is heavily invested in cash and cash equivalents and debt securities. The Bank believes that cash and cash equivalents and debt securities offer the best returns over the long term with an acceptable level of risk.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan currently is over funded by P1.2 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the Bank is funding its plan assets to manage the cash flow risk in about 32 years' time when a significant number of employees is expected to retire.

The Bank expects to pay P37.1 million as contribution to retirement benefit plan in 2018.

The maturity profile of undiscounted expected benefit payments from the plan for the next ten years follows:

	2017	2016
Within one year	**P 72,974,848**	P 39,507,044
More than one year to five years	**24,128,488**	47,579,612
More than five years to ten years	**139,517,012**	84,392,549
	P 236,620,348	P 171,479,205

The weighted average duration of the defined benefit obligation at the end of the reporting period is 5.4 years.

24. RELATED PARTY TRANSACTIONS

A summary of the Bank's transactions with related parties include its transactions with DOSRI, key management and retirement fund is presented below.

Related Party Category	Note	Amount of Transaction **2017**	Amount of Transaction 2016	Amount of Transaction 2015	Outstanding Balance **2017**	Outstanding Balance 2016
DOSRI:						
Deposit liabilities	24.1	**P914,160,412**	P6,891,205,514	P6,783,959,179	**P7,386,127,107**	P6,471,966,695
Interest expense	24.1	**66,106,681**	64,390,172	58,601,050	**-**	-
Loans	24.2	**527,860,985**	1,217,879,975	1,278,906,663	**767,983,251**	1,212,117,019
Interest income	24.2	**29,782,815**	44,013,008	48,498,573	**969,508**	2,832,634
Retirement Fund:						
Contribution	24.3	**37,133,819**	37,133,819	37,133,819	**-**	-
Plan assets	24.3	**163,694,753**	83,356	37,164	**202,904,139**	42,457,190
Key management compensation	24.4	**113,530,990**	101,934,057	83,029,008	**-**	-

Based on management's assessment as at December 31, 2017 and 2016, no impairment is required to be recognized on the Bank's receivable from related parties. Details of the foregoing transactions follow:

24.1 DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding accrued interest as of December 31, 2017 and 2016.

Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 18). Annual interest rates on deposit liabilities range from 0.3% to 2.9% in 2017 and 2016, and from 0.3% to 2.8% in 2015.

24.2 DOSRI Loans

The Bank has loan transactions with its DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks and are normally settled in cash.

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. However, non-risk loans, which include those that are secured by assets, are excluded in both individual and aggregate ceiling computation. As of December 31, 2017 and 2016, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI in accordance with BSP reporting guidelines:

	2017	2016
Total outstanding DOSRI loans	**P 767,983,251**	P 1,212,117,019
Unsecured DOSRI loans	**29,210,591**	9,856,451
Past due DOSRI loans	**-**	-
% to total loan portfolio	**0.0%**	0.0%
% of unsecured DOSRI loans to total DOSRI loans	**3.92%**	0.8%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.0%

Secured DOSRI loans are collateralized by hold-out on deposits and are payable within three months to five years.

As of December 31, 2017 and 2016, the Bank has an approved line of credit to certain related parties totaling P694.0 million and P672.0 million, respectively, and all were used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

24.3 Transactions with Retirement Fund

The Bank's transactions with its retirement fund as of December 31, 2017 and 2016 relate only to its contributions to the plan and certain placements made by the plan to the Bank.

The following retirement plan assets are placed with the Bank comprise cash in bank, short-term placements, and equity shares of the Bank as disclosed in Note 23.2:

	2017	2016
Cash and cash equivalents	**P 40,518,233**	P 34,606,247
Equity and debt instruments	**161,690,485**	7,840,560
Accrued interest	**695,421**	10,383
	P 202,904,139	P 42,457,190

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments by any restrictions or liens.

(Amounts in Philippine Pesos or As Otherwise Indicated)

24.4 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

	2017	2016	2015
Short-term benefits	**P 104,997,794**	P 92,909,936	P 76,024,569
Post-employment benefits	**8,533,196**	9,024,121	7,004,439
	P 113,530,990	P 101,934,057	P 83,029,008

The composition of the Bank's short-term benefits are as follows:

	2017	2016	2015
Salaries and wages	**P 81,600,760**	P 72,088,807	P 58,902,581
Bonuses	**20,562,459**	17,987,189	14,890,912
Social security costs	**1,550,625**	1,508,717	1,178,696
Other short-term benefits	**1,283,950**	1,325,223	1,052,380
	P 104,997,794	P 92,909,936	P 76,024,569

25. TAXES

The components of tax expense for the years ended December 31, 2017, 2016 and 2015 follow:

	2017	2016	2015
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%			
Regular Banking Unit (RBU)	**P 303,401,295**	P 183,050,792	P 165,170,994
FCDU	**48,534**	669,447	2,323,577
Final tax at 20%, 10% and 7.5%	**43,428,072**	99,688,898	93,574,103
	346,877,901	283,409,137	261,068,674
Deferred tax income relating to origination and reversal of temporary differences	**(73,630,507)**	(77,570,687)	(57,771,400)
	P 273,247,394	P 205,838,450	P 203,297,274
Reported in other comprehensive income			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 5,876,800**	P 6,783,896	P 1,114,597

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of profit or loss is presented below.

	2017	2016	2015
Tax on pretax profit at 30%	**P 274,000,048**	P 262,338,797	P 211,631,783
Adjustment for income subjected to lower tax rates	**(10,238,755)**	(39,204,162)	(93,128,766)
Tax effects of:			
Non-deductible expenses	**98,883,937**	158,214,458	89,587,230
Non-taxable income	**(89,397,836)**	(175,510,643)	(4,792,973)
Tax expense	**P 273,247,394**	P 205,838,450	P 203,297,274

The Bank is subject to minimum corporate income tax (MCIT) computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher.

The net deferred tax assets, which included as part of the Other Resources account, (see Note 17) as of December 31, 2017 and 2016 relate to the following:

	2017	2016
Deferred tax assets:		
Allowance for impairment	**P 439,084,724**	P 368,707,306
Accumulated depreciation of investment properties	**27,303,025**	21,051,739
Provision for bonus and accrued leave conversion	**23,698,424**	18,771,937
Unamortized past service cost	**12,876,327**	11,124,277
Deferred tax liabilities:		
Unamortized payments on documentary stamp tax	**(9,258,135)**	-
Post-employment benefit assets	**(360,704)**	(2,565,272)
Gain on initial exchange of investment properties	**-**	(3,253,633)
Net deferred tax assets	**P 493,343,661**	P 413,836,354

Movements in net deferred tax assets for the years ended December 31 follow:

	Statements of Profit or Loss			**Statements of Comprehensive Income**		
	2017	2016	2015	**2017**	2016	2015
Allowance for impairment	**(P 70,377,418)**	(P 43,783,790)	(P 51,615,107)	**P -**	P -	P -
Unamortized payments on documentary stamp tax	**9,258,135**	-	-	**-**	-	-
Gain on initial exchange of investment properties	**(3,253,633)**	(23,166,773)	(6,006,466)	**-**	-	-
Provision for bonus and accrued leave conversion	**(4,926,487)**	(9,074,547)	1,236,601	**-**	-	-
Accumulated depreciation of investment properties	**(6,251,286)**	(3,209,679)	(2,550,046)	**-**	-	-
Post-employment benefit obligation	**3,672,232**	2,797,906	3,811,945	**(5,876,800)**	6,783,896	1,114,597
Unamortized past service cost	**(1,752,050)**	(1,133,804)	(2,648,327)	**-**	-	-
Deferred tax expense (income)	**(P 73,630,507)**	(P 77,570,687)	(P 57,771,400)	**(P 5,876,800)**	P 6,783,896	P 1,114,597

As of December 31, 2017 and 2016, the Bank has unrecognized deferred tax assets amounting to P10.5 million which pertain to certain allowance for impairment absorbed from KRBI upon merger in 2010.

For the years ended December 31, 2017 and 2016, the Bank opted to claim itemized deductions.

(Amounts in Philippine Pesos or As Otherwise Indicated)

26. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

(a) The Bank leases the premises occupied by its branch offices for periods ranging from 5 to 20 years, renewable upon mutual agreement between the Bank and the lessors. The rent expense amounting to P138.1 million, P130.8 million and P115.1 million in 2017, 2016 and 2015, respectively, are included as part of Occupancy under Other Expenses in the statements of profit or loss.

As of December 31, 2017, 2016 and 2015, future minimum rental payments required by the lease contracts are as follows:

	2017	2016	2015
Within one year	**P 111,369,071**	P 108,367,205	P 107,784,137
After one year but not more than five years	**352,772,317**	210,308,732	244,536,398
More than five years	**6,864,383**	7,452,777	10,418,892
	P 471,005,771	P 326,128,714	P 362,739,427

(b) In the normal course of the Bank's operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the financial statements.

(c) The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

The following is a summary of the Bank's commitments and contingent accounts as of December 31:

	2017	2016
Investment management accounts	**P 2,352,423,750**	P 1,938,042,428
Trust and other fiduciary accounts	**753,922,571**	796,018,046
Outstanding letters of credit	**626,860,238**	807,107,561
Unit investment trust fund	**31,562,003**	34,259,888
Late payment/deposits received	**14,996,909**	7,615,931
Outward bills for collection	**4,358,349**	53,479,103
Items held for safekeeping	**93,083**	66,919
Items held as collateral	**11,066**	8,720
Other contingent accounts	**239,479,318**	543,038,687

As of December 31, 2017 and 2016, the Bank's management believes that losses, if any, from the above commitments and contingencies will not have a material effect on the Bank's financial statements.

(d) There are other commitments, guarantees and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the financial statements. As of December 31, 2017 and 2016, management is of the opinion that losses, if any, from these items will not have a material effect on the Bank's financial statements.

27. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank:

	2017	2016
Loans and other receivables	**P 928,978,473**	P 167,713,458
Due from banks	**551,824,158**	1,073,711,290
Investment securities	**1,640,703,015**	1,444,251,174
Due from BSP	**-**	81,000,000
	P 3,121,505,646	P 2,766,675,922

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

(a) Government bonds owned by the Bank with face value of P35.0 million and P55.0 million as of December 31, 2017 and 2016, respectively, are deposited with the BSP (see Note 12); and,

(b) 10% of the trust income is transferred to appropriated surplus. This transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. Additional reserve for trust functions amounted to P1.1 million, P1.2 million and P1.4 million in 2017, 2016 and 2015, respectively, and are presented as Appropriated Surplus in the Bank's statements of changes in equity.

Income from trust operations, shown as part of Miscellaneous Income, amounted to P11.2 million, P11.9 million and P13.9 million for the years ended December 31, 2017, 2016 and 2015, respectively, in the statements of profit or loss (see Note 22.1).

28. SELECTED FINANCIAL PERFORMANCE INDICATORS

a. The following are some of the financial performance indicators of the Bank:

	2017	2016	2015
Return on average capital			
Net profit / Average total capital accounts	**6.5%**	7.4%	6.1%
Return on average resources			
Net profit / Average total resources	**1.0%**	1.0%	0.8%
Net interest margin			
Net interest income / Average interest earning resources	**4.3%**	3.9%	4.1%
Capital to risk assets ratio			
Total capital / Risk resources	**14.0%**	17.0%	17.7%
Liquidity ratio			
Current assets / Current liabilities	**1.1**	1.5	1.0
Debt-to-equity ratio			
Liabilities / Equity	**7.5**	6.3	6.7
Asset-to-equity ratio			
Asset / Equity	**8.5**	7.3	7.7
Interest rate coverage ratio			
Earnings before interests and taxes / Interest expense	**1.1**	2.2	1.9

b. Secured Liabilities and Resources Pledged as Security

As of December 31, 2017, bills payable are the only secured liabilities, while as of December 31, 2016, all of the Bank's liabilities are unsecured (see Note 19).

(Amounts in Philippine Pesos or As Otherwise Indicated)

29. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	2017	2016	2015
Net profit	**P 640,086,100**	P 668,624,205	P 502,142,004
Dividends on preferred shares	**-**	(79,200,000)	(-)
Net profit attributable to common shareholders	**640,086,100**	589,424,205	502,142,004
Divided by the weighted average number of outstanding common shares	**643,750,094**	643,750,094	643,750,094
Basic earnings per share	**P 0.99**	P 0.92	P 0.78

The 2016 and 2015 earnings per share of the Bank was restated to account for the stock dividends declared in 2017 which is considered as a bonus issue under PAS 33, *Earnings per Share*. PAS 33 requires stock dividends issued to be recognized at the beginning of the earliest period presented for earnings per share computation.

As of December 31, 2017, 2016 and 2015, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

The following is the supplementary information which is required by the BIR under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

30.1 Requirements Under RR No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year under RR No. 15-2010 follows:

(a) Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

In 2017, the Bank reported total GRT amounting to P203,560,372 shown as part of Taxes and licenses in the 2017 statement of profit or loss [see Note 30.1(c)].

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 5% or 1% of the related income.

(b) Documentary Stamp Tax

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2017, DST remittance thru e-DST amounted to P408,115,344, while DST on deposits for remittance amounted to P151,511,501. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

DST on loan documents and letters of credit in 2017 amounting to P256,603,843 were charged to borrowers and these were properly remitted by the Bank.

DST accruing to the Bank amounted to P155,126,024 and is presented as part of the Taxes and licenses in the 2017 statement of profit or loss [see Note 30.1(c)].

(c) Taxes and Licenses

Details of taxes and licenses for the year ended December 31, 2017 follow:

	Note	
Gross receipts tax	30.1(a)	P 203,560,372
DST	30.1(b)	185,986,474
Business tax		19,463,890
Real property tax		1,588,247
Miscellaneous		2,617,043
		P 413,216,026

Taxes and licenses allocated to tax exempt income and FCDU totaling P19,879,002 were excluded from the itemized deductions for purposes of income tax computation (see Note 25). DST includes unamortized amount of P30.9 million recognized as deductible in full for income tax purposes (see Note 25).

(d) Withholding Taxes

Details of total withholding taxes for the year ended December 31, 2017 are shown below.

Final	P 163,574,628
Compensation and benefits	88,903,451
Expanded	39,911,235
	P 292,389,314

(e) Deficiency Tax Assessments and Tax Cases

As of December 31, 2017, the Bank does not have any outstanding final deficiency tax assessments from the BIR nor does it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in any open taxable year.

(f) Other Required Tax Information

The Bank did not have any transactions in 2017 which are subject to excise tax, customs duties and tariff fees.

30.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The Bank's RBU is taxed separately from the FCDU. The amounts of taxable revenues and income, and deductible costs and expenses of RBU of the Bank are presented below. The amounts of taxable revenues and income, and deductible costs and expenses of the FCDU are presented in the notes to the separate financial statements of the FCDU for which corresponding income tax return is separately filed with the BIR.

(Amounts in Philippine Pesos or As Otherwise Indicated)

The amounts of taxable revenues and income, and deductible costs and expenses that follows are based on relevant tax regulations issued by the BIR; hence, may not be the same as the amounts reflected in the 2017 statement of profit or loss, which are based on PFRS.

(a) Taxable Revenues

The Bank's taxable revenues for the year ended December 31, 2017 at the regular tax rate pertain to interest income amounting to P3,586,452,932.

(b) Deductible Costs of Services

Deductible costs of services for the year ended December 31, 2017 at the regular tax rate comprise the following:

Interest expense	P	745,179,433
Salaries and wages		688,602,693
Insurance		121,590,007
Supervision/examination fees		22,816,410
	P	**1,578,188,543**

(c) Taxable Non-operating and Other Income

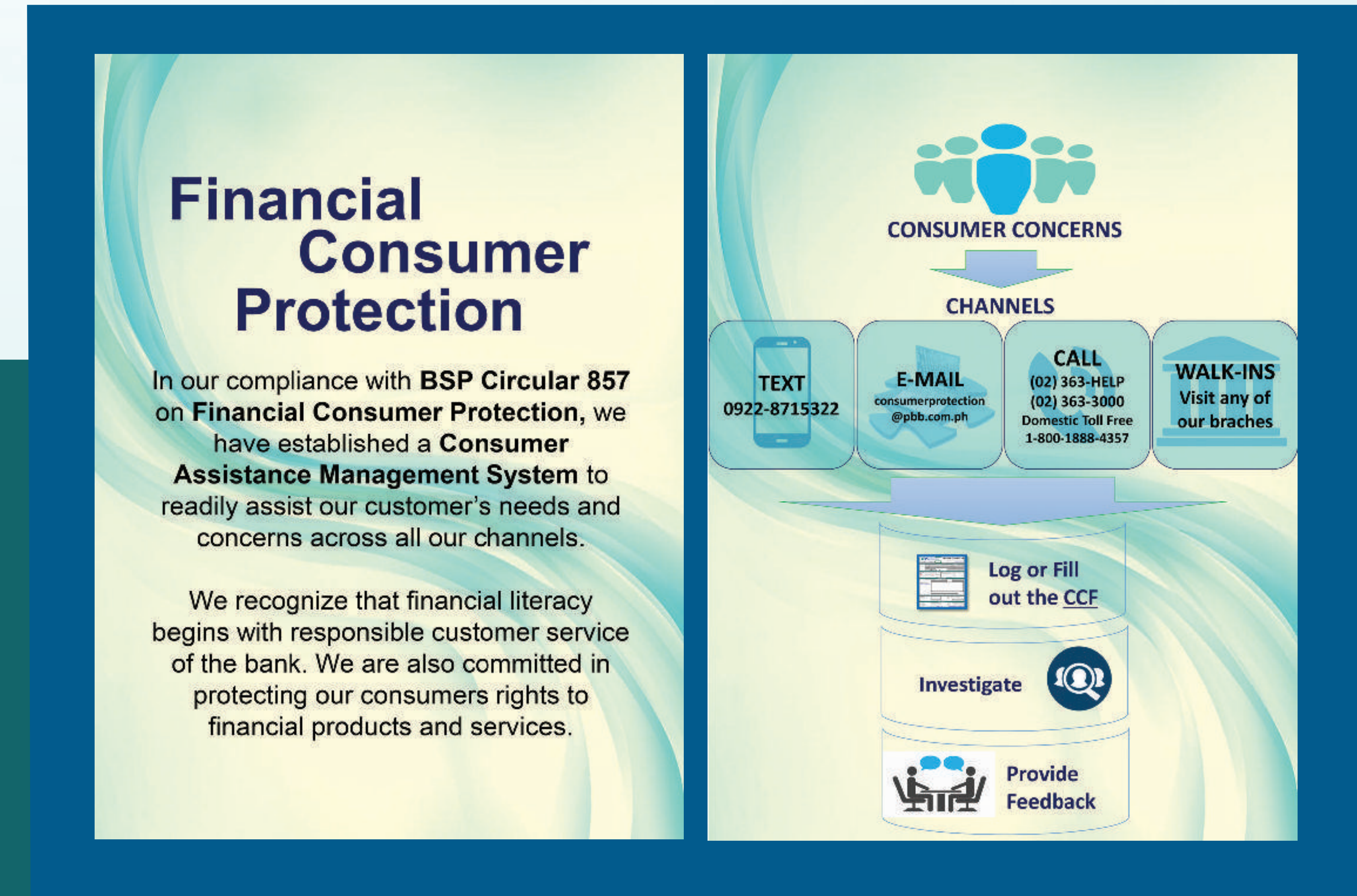
Details of taxable non-operating and other income in 2017 which are subject to regular tax rate are shown below.

Bank commissions and service charges	P	198,370,726
Gain on sale of properties		31,949,640
Others		41,613,390
	P	**271,933,756**

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2017 subject to regular tax rate follow:

Taxes and licenses	P	393,221,114
Depreciation		136,662,183
Rental		134,714,928
Management and other professional fees		111,917,244
Janitorial and messengerial		111,666,233
Transportation and travel		52,871,418
Communication, light and water		52,445,683
Fuel and oil		39,884,034
Insurance		34,034,584
Representation		31,855,824
Banking fees		22,090,966
Amortization of computer software		20,723,810
Advertising and promotion		14,400,403
Information technology		12,023,022
Office supplies		11,731,116
Litigation		8,809,501
Repairs and maintenance		6,169,057
Charitable contribution		5,760,693
Others		67,878,682
	P	**1,268,860,495**



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