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

Signed this _____ day of __________, 2018

SUBSCRIBED AND SWORN to before me on 16 APR 2018 affiant/s exhibiting to me his/her Government - Issued ID/s bearing his/her Photograph/s and Signature/s.

ATTY. NIÑO CHRISTOPHER R. DIRA
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

DOC. NO. 136
PAGE NO. 29
BOOK NO. 7
SERIES OF 18

COVER SHEET

A 1 9 9 7 0 1 5 8 4

S.E.C. Registration Number

PHILIPPINE BUSINESS BANK, INC.

a savings bank

(Company's Full Name)

350 RIZAL AVENUE EXTENSION

CORNER 8TH AVENUE GRACE PARK

CALOOCAN CITY

(Business Address: No. Street City / Town / Province)

Rolando G. Alvendia

Contact Person

363-3333 local 4023

Company Telephone Number

Month Day

Fiscal Year

SEC FORM 17-A

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2017**

2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **000-005-469-606**

4. Exact name of issuer as specified in its charter **PHILIPPINE BUSINESS BANK, INC.**

5. **CALOOCAN**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. **350 Rizal Avenue corner 8th Avenue Grace Park, Caloocan City** **1400**
   Address of principal office Postal Code

8. **(02) 363-33-33**
   Issuer's telephone number, including area code

9. **Not Applicable**
   Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON	**643,750,094**

11. Are any or all of these securities listed on a Stock Exchange.

    Yes [**x**] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    PHILIPPINE STOCK EXCHANGE **COMMON SHARES OF STOCK**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [x]   No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ]   No [x]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [ ]   No [ ] NOT APPLICABLE

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20;

(c) Any prospectus filed pursuant to SRC Rule 8.1.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

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.

Vision

By making things happen today, PBB will help build strong business communities where people can achieve their dreams.

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.

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.

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.

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 Risk Management Objectives and Policies

Enterprise Risk Management Framework

Managing the various kinds of risks Philippine Business Bank encounters in its businesses is an integral part of its operations. PBB has developed an integrated Risk Management Framework involving the Board of Directors, Senior Management, the Business Units and the Bank's Risk Management Group.

The Board of Directors sets PBB's risk management direction through the Risk Oversight Committee (ROC). It is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. This Committee continuously operates at the forefront of PBB's risk governance by specifying the risk taking parameters, tolerances and expected rewards by which business risks are to be taken. Furthermore, it allocates appropriate capital for absorbing potential losses from various risks attendant in the risk taking activities.

The Bank's Enterprise Risk Management framework employs an integrated approach to the identification, measurement, control and disclosure of risks in all aspects of the banking operations. The risk management infrastructure covers operational, market and liquidity, credit and counterparty and other downside risks consistent with risk management guidelines of the regulatory agencies and aligned with best practices on risk management.

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 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.

Credit Risks

PBB takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to PBB by failing to discharge an obligation. Credit exposures arise principally in loans and advances, debt securities and other bills.

The Bank boasts of its knowledge of the SME segment as one of its strengths. Hence, the Bank puts acknowledgment in its qualitative assessment of its loan portfolio in addition to the quantitative aspects of credit risk assessment. The Bank has a very thorough pre-approval screening of loan accounts and has taken the initiative to implement an internal credit scoring model to measure and monitor credit risks for its covered portfolio. This is complemented by a regular credit review process as well as monthly portfolio risk evaluation to identify risk trends and credit risk red flags. The Bank sets aside adequate loss provisions to cover for its credit risks consistent with BSP regulations and following accounting standards.

PBB assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. PBB has internal credit risk rating system that measure the borrower's credit risk based on quantitative and qualitative factors. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. PBB regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary

The PBB structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors.

When entering into new markets or new industries, the PBB focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

In recognition of the need for risk management measures to complement its continuously growing loan portfolio, the Bank continues to conduct a bank-wide credit process streamlining endeavors to ensure that commensurate controls are in place while the Bank continues to device ways to improve its credit process and service delivery. The Bank also has instituted improvements in its credit policies, which includes stricter monitoring of large exposures and credit concentrations to ensure portfolio diversification. The Bank implements the revised Internal Credit Risk Rating System as part of its preparation on PFRS 9.

Market and Liquidity Risks

The Bank continues to review its treasury limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover for risk exposures.
The Bank has an automated system for the trading (front office), settlements and control (back office), and risk measurements and analyses (middle office) processes. This includes, among others, the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and preset value-at-risk (VaR) calculations. The Bank

utilizes the delta-normal model for its VaR calculations and is complemented by regular stress testing and backtesting procedures.

PBB stands by its reputation in high regard as evidenced by the faithful performance of its commitments and by upholding the trust bestowed upon it by its clients. This, and the management of potential losses related to funding and trading liquidity are the reasons the Bank seriously manages liquidity risks. It has a functional Asset and Liability Committee which oversees the regular liquidity management of the Bank through the Treasury Services Group and with oversight from the Board through the Risk Oversight Committee. Regular liquidity gap reports and maximum cumulative outflow monitoring is done on management level. The Bank also has a comprehensive Liquidity Contingency Plan which identifies specific fund sources during potential liquidity crunch scenarios. Stress testing is also done regularly to complement its liquidity risk measurement tools.

PBB is also very keen in its interest rate gap position. Management uses repricing gap reports, earning-at-risk (EAR), and sensitivity analysis to lookout for the potential effect of a rising or a falling interest rate scenario to the Bank's interest income objective. Management monitors compliance to set EAR limits regularly to ensure that interest rate risks sought are within the bounds set by the Board.

Operational Risk Management

"Control first before transaction execution" – This is PBB's motto and being fostered among all PBB employees.

Operational risk is the risk arising from failure of people, systems, process, and external event. It is under these areas that the monitoring tools and risk assessments are organized.

The main goals of Operational Risk Management are:

- Develop an internal risk assessment methodology and operational risk data base management system linked to the operational risk management and business planning process
- Strengthen the risk control system to reduce risk, manage disruption, ensure business continuity, reduce overall costs and improve service efficiency
- Ensure compliance with other local and global risk and capital regulation (e.g. MORB of the BSP, BIS) at all times i.e. under normal and stressed operating conditions
- Streamline the PBB risk governance structure for the control and oversight of operational risk
- Empower business units with the responsibility and accountability of the business risks they assume on a daily basis
- Institutionalize a risk culture and sensitivity to potential losses including people empowerment, accountability and ownership of risks
- Minimize the potential for loss to avoid potentially large or catastrophic operational risk losses thus ensuring that capital resources are preserved;
- Create an organizational culture that places high priority on effective operational risk management and adherence to sound operating controls.

- Promote high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of risk awareness and internal control

PBB promotes a corporate risk culture and sensitivity to potential losses through regular trainings and ongoing bank wide risk awareness program.

Part and parcel of Operational Risk Management in PBB are the IT and Information Security risk management. The Bank values the confidentiality, availability, and integrity of all the information it holds. This includes the protection of client information to the full extent allowable under the law as well as the utmost protection of its clients utilizing information technology systems. To uphold this, the Bank regularly updates its information security policies and make sure that it is properly implemented and disseminated across all units of the Bank.

The bank adheres to the mandated definition of the Bangko Sentral ng Pilipinas (BSP) for IT risk under BSP Cir. No. 808 series of 2013. Technology has become one of the major players in most of the Bank's decisions when considering projects that require solutions or automation. With the increased number of dependency on technology, the risk associated with its use increases. Use of technology to improve efficiency or effectiveness of business processes may result to Information Technology Risk due to unmanaged projects and/or resources.

As part of the strategic goals, PBB needs to constantly introduce new or enhanced products and services, improve systems and processes, and implement updates and innovations in IT to secure and manage voluminous information and maintain their competitive position. IT projects, when managed improperly, often result in late deliveries, cost overruns, or poor quality applications. Inferior applications can result in underused, unsecure, or unreliable systems. Retrofitting functional, security, or automated-control features into applications is expensive, time consuming, and often results in less effective features. Therefore, PBB carefully manages IT-related projects to ensure they meet organizational needs on time and within budget.

Information Security Risk also takes place with the use of technology due to possible compromise of confidentiality, integrity and availability of information and systems. Because of the underlying information technology and security risks, the use of IT/S Risk Management Framework becomes essential to ensure that both Information Technology and Security Risks are properly identified, measured, managed/controlled, monitored and reported.

Item 2. Properties

The Bank owns the land and building on which its head office is located. The head office is a four-story building located on a 1,300 square meter property along Rizal Avenue, Grace Park, and Caloocan City. The Bank also owns the land and premises on which seven (7) of its branches are located, specifically, PBB's branches in Paso de Blas in Valenzuela, Imus and Kawit in Cavite, Muzon in San Jose del Monte Bulacan, Limay in Bataan, Subic in Zambales, and General Tinio in Nueva Ecija.

The land and premises where PBB's other branches are located are leased from various property owners. Such lease agreements are typically long term in nature, with durations of five (5) years or more. The Bank has entered into lease agreements with the following parties:

Region		**Address**
Caloocan Region		
1	Main Office Branch	350 Rizal Ave. Ext., corner 8th Ave., Grace Park, Caloocan City
2	Grace Park	249 Rizal Ave. Ext., corner 7th Ave., Grace Park, Caloocan City
3	A. Mabini C-3	200 A. Mabini St. Maypajo, Caloocan City
4	Camarin	Zabarte Town Center 588 Camarin Rd. cor. Zabarte Rd. North, Caloocan City
5	Edsa-Kalookan	574 EDSA Highway, Kalookan City
6	Edsa-Monumento	261 EDSA Highway, Barangay 85, Zone 8, Caloocan City
7	Kaybiga	Guilmar Marble Corporation Bldg., #297 General Luis Street Kaybiga, Caloocan City
8	Samson Road	117 D & E Samson Road, Caloocan City
Manila Region		
1	Binondo Corporate Center	1126 Soler St.Binondo, Manila
2	Carmen Planas	869 Carmen Planas St., Binondo, Manila
3	Elcano	730 Elcano St., Binondo, Manila
4	Jose Abad Santos	1737-1739 Jose Abad Santos, Tondo, Manila
5	Quintin Paredes	G/F Downtown Center Bldg., Quintin Paredes Street, Binondo, Manila
6	Adriatico-Malate	G/F Hostel 1632 Adriatico St. Malate, Manila
7	Pasay	2241 C. k. Sy Bldg., Taft Ave., Pasay City
8	Pasay-Malibay	Unit E, J&B Building, 641 Epifanio Delos Santos Avenue (EDSA), Malibay, Pasay
9	Paterno-Quiapo	707 Paterno St., Barangay 307, Quiapo, Manila
10	Pedro Gil-Paco	1077 Pedro Gil Street, Paco, Manila

Northern Metro Manila Region

1	Malinta	G/F MS Apartelle Building, 415 McArthur Highway, Dalandanan, Valenzuela City
2	Malabon	155 Gov. Pascual Ave., Malabon City
3	Malabon-Rizal Ave	726 Rizal Ave. Brgy. Tanong, Malabon City
4	Navotas	North Bay Boulevard, Navotas, Metro Manila
5	Paso de Blas	Paso de Blas Road cor. P. Santiago St., Barangay Paso de Blas, Valenzuela City
6	Valenzuela	215 McArthur Highway, Karuhatan, Valenzuela City
7	Baliuag	B.S. Aquino Ave. Bagong Nayon, Baliuag, Bulacan
8	Bocaue	Mac Arthur Highway, Barangay Wakas, Bocaue, Bulacan
9	Malolos	G/F Unit 4 and 5, DJ Paradise Hotel, Macarthur Highway, Barangay Dakila, Malolos City, Bulacan
10	Meycauayan	Medical Plaza Bldg., McArthur Highway, Banga, Meycauayan, Bulacan
11	Muzon	807 Luwasan Muzon, City of San Jose del Monte, Bulacan
12	Sta. Maria	Angelica Bldg., Gov. F. Halili Ave., Bagbaguin, Sta. Maria, Bulacan
13	Angeles	Lot 5 Blk 1 McArthur Highway, Angeles City
14	Cabanatuan	Paco Roman St. Cabanatuan City, Nueva Ecija
15	Gapan	Tinio St. Brgy. San Vicente, Gapan City, Nueva Ecija
16	Gen. Tinio	Poblacion Central (Papaya) Gen. Tinio, Nueva Ecija
17	Olongapo City	2420 Rizal Avenue, Brgy East Bajac-Bajac, Olongapo City
18	San Fernando	Hyatt Garden Bldg., McArthur Highway, Dolores, San Fernando, Pampanga
19	Balanga	Don Manuel Banzon Avenue, Balanga City, Bataan
20	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
21	Limay	National Road Brgy. Reformista, Bernabe Subdivision, Limay Bataan
22	Subic-Zambales	No. 0025 National Highway, Calapandayan, Subic Zambales
23	Dinalupihan	No. 33 Rizal St., Dinalupihan, Bataan

Eastern Metro Manila Region

1	Greenhills	G/F LGI Bldg, Ortigas Ave. Greenhills, San Juan City
2	Mandaluyong	Unit I, Facilities Centre Shaw Blvd., Mandaluyong City
3	Ortigas	Ortigas CW Home Depot Julia Vargas, Meralco Ave. Brgy. Ugong Pasig City
4	Pasig Blvd.-Kapitolyo	G/F Unit 4 Elements on Rosemarie Building, Pasig Boulevard cor. Rosemarie St., Pasig City
5	Antipolo	Units 3 & 4 Megathon Bldg., Circumferential Road, Brgy. San Roque, Antipolo City
6	Cainta	Unit B5 and B6, The Avenue, Felix Ave., Cainta, Rizal
7	Marikina	306 J. P. Rizal St., Sta. Elena, Marikina City
8	Concepcion-Marikina	Bayan- Bayanan Ave., Concepcion Uno, Marikina City
9	Antipolo-Masinag	Unit 104 G/F Rikland Centre, Marcos Highway Mayamot, Antipolo
10	Taytay	Brgy. San Juan, Taytay, Rizal
11	Ortigas Ave. Ext.-Cainta	G/F Crospoint Commercial Area, Resta 2. Ortigas Ave. Ext., Cainta, Junction, Brgy. Sto. Domingo Cainta, Rizal

Central Metro Manila Region

1	Commonwealth-Fairview	G/F Datamex - College of St. Adeline Commonwealth Ave. East Fairview Park Subd., Quezon City
2	Cubao	Units D, E, F Timbol Singh 915 Aurora Blvd., Cubao, Quezon City
3	Novaliches	Krystle Bldg. 858 Quirino Highway, Novaliches, Quezon City
4	Timog-Rotonda	A.A. Tanco Bldg. #55 Timog Avenue cor. Tomas Morato Avenue, Brgy. South Triangle, Quezon City
5	Banawe	Unit 5-7 Solmac Bldg. 84 Dapitan cor Banawe Sts. Sta. Mesa Heights, Quezon City
6	Banawe-Kaliraya	Motorex Philippines, Inc. Building 148 Banawe cor. Kaliraya St. Brgy. Tatalon, Quezon City
7	Congressional Ave. -Quezon City	622 Congressional Avenue Brgy. Bahay, Toro, Quezon City
8	Del Monte	284-286 Del Monte Ave., Quezon City
9	Retiro	No. 84 Units A&B N.S. Amoranto Ave., Brgy. Salvacion, La Loma, Quezon City
10	Roosevelt	Sun Square Bldg., 323 Roosevelt Ave Brgy. San Antonio, San Francisco, Del Monte, Quezon City
11	West Avenue	Unit 102, WestAve. Strip, No. 53 West Avenue, Brgy. Paltok, Quezon City
12	Kamias-Anonas	G/F Armon's Building 142 Kamias Road Cor. Anonas St., Quezon City

Southern Metro Manila Region

1	Legaspi Village-Makati	Sunrise Terraces, 100 Perea St. Legaspi Village, Brgy. San Lorenzo, Makati City
2	Makati	137 Yakal Street, Makati City
3	Salcedo Village-Makati	Unit GDA-1, LPL Center, 130 L. P. Leviste St., Salcedo Village, Makati City
4	Sucat-Parañaque	Unit B-10-A Jaka Plaza Mall, A. Santos Avenue, Sucat, Parañaque
5	The Fort	Units 104-105 Forbeswood Towers, Forbestown Center, Rizal Drive cor. Burgos Circle, Bonifacio Global City, Taguig City
6	Dasmariñas-Cavite	Unit G2 Annie's Plaza Dasma, Brgy. San Agustin I, Dasmariñas City, Cavite
7	Imus	Aguinaldo Highway, Tanzang Luma, Imus, Cavite
8	Las Piñas	Unit 1 & 2 G/F San Beda Commercial Zapote Alabang Rd., Las Piñas
9	Madrigal Business Park	Unit 102 G/F Corporate Centre 1906 Finance Dr. Madrigal Business Park, Muntinlupa City
10	Muntinlupa	G/F Units 1 & 2 # 50 National Road, Putatan, Muntinlupa City
11	Molino-Bacoor	SolaGrande Centre, Molino Business Centre, Molino Road, Molino 2, Bacoor City, Cavite
12	Trece Martires-Cavite	VPG Building, Tanza- Trece Martires Road, Brgy. San Agustin, Trece Martires City, Cavite
13	Carmona-Cavite	Units F & G, Jupan C. Lim Building, Governor's Drive, Brgy. Bancal, Carmona, Cavite
14	Kawit	Gregoria St., Poblacion Kawit, Cavite
15	Binakayan	Tirona Highway, Binakayan
16	Better Living-Parañaque	156 Doña Soledad Avenue, Better Living Subdivision Barangay Don Bosco, Paranaque City

17	Bonifacio Global City	Stall CS 152 and 153, MC Home Depot 32nd Street, corner Bonifacio Blvd., Bonifacio Global City, Taguig

Northern Luzon Region

1	Cauayan	Maharlika Highway, Brgy San Fermin, Cauayan City, Isabela
2	Laoag City	G/F Laoag Allied Marketing Bldg., Brgy. 19 J. P. Rizal St., Laoag City
3	Tuguegarao	# 6 Rizal St., Barangay 8, Tuguegarao City
4	Santiago	BDV Building, City Road, Santiago City, Isabela
5	Vigan	Luisa Trading Building, Quezon Avenue cor. Salcedo St., Barangay 3, Vigan City, Ilocos Sur
6	Baguio	G/F CTTL Bldg. Abanao Ext., Baguio City
7	Dagupan	Rizal St., Dagupan City, Pangasinan
8	La Union	G/F Virginia Bldg. Quezon Ave. cor. Flores St. Dominion Bus Terminal, National Highway, San Fernando City, La Union
9	Tarlac	G/F Que Kian Juat Building, F. Tanedo Street, Brgy. San Nicolas, Tarlac City
10	Urdaneta	Unit 1, The Pentagon GNC Bldg., Mac Arthur Highway, Nancayasan, Urdaneta, Pangasinan
11	Tarlac-Paniqui	G/F Unit 8, Green Field Building, Zamora St.,Poblacion Sur, Paniqui, Tarlac
12	Benguet-La Trinidad	KM 5, La Trinidad, Benguet
13	Pangasinan-Lingayen	17 Avenida Rizal West, Barangay Poblacion, Lingayen, Pangasinan
14	Candon-Ilocos Sur	G/F BZ Building, #15 National Highway, Barangay San Isidro, Candon City, Ilocos Sur

Southern Luzon Region

1	Batangas	Cifra Plaza, No. 114 Rizal Ave. cor. Zamora St. Brgy 16, Batangas
2	Lipa City	Units 1, 2, 3 & 4 Trinity Business Centre, Ayala Highway Brgy. Balintawak, Lipa City , Batangas
3	Tanauan	Jose P. Laurel Avenue, Barangay Poblacion, Tanauan City
4	Calapan	AST Tolentino Building, JP Rizal Street, Barangay San Vicente East, Calapan City, Oriental Mindoro
5	Calamba	G/F Unit 2 Kim-Kat Bldg., Parian, Calamba City, Laguna
6	Lucena City	Quezon Avenue, Lucena City
7	San Pablo	Lynderson Building, Lopez Jaena St., San Pablo City, Laguna
8	Sta. Rosa	#100 Balibago along National Highway, cor. Roque Lasaga St. Balibago, Sta. Rosa, Laguna
9	San Pedro	Alex Building National Highway, Brgy. Poblacion San Pedro, Laguna
10	Legazpi City	D' Executive Bldg, Rizal St. Brgy. Tinago, Legazpi City, Albay
11	Naga	Unit C G/F CBD Plaza Hotel, Ninoy and Cory Avenue, Central Business District II, Triangulo, Naga City
12	Sorsogon	Chiang kai Shek School Building, Magsaysay Avenue, Sorsogon City
13	Puerto Princesa Palawan	New Carlos Building, # 271 Rizal Avenue Central Business District, Maningnin Puerto Princesa City, Palawan
14	Iriga-Camarines Sur	Highway 1 corner Violeta St., San Miguel, Iriga City
15	Biñan-Laguna	G/F S.A.P. Building 5230 National Highway, Brgy. San Vicente, Biñan City, Laguna

Visayas Region

1	Bacolod	Philamlife Bacolod Bldg., Lacson St. cor. Galo Street, Bacolod City
2	Iloilo	25 Quezon Street, Iloilo City
3	Kalibo	Roxas Avenue, Poblacion, Kalibo City, Aklan
4	Downtown-Cebu	G/F Lianting Bldg., 130 F. Gonzales Street, Cebu City
5	Lapu-Lapu City	G/F AMCO Bldg., ML Quezon, National Rd. Pajo, Lapu-Lapu City, Cebu
6	Mandaue	Unit 1-2 Wireless Plaza Bldg. H. Cortes Avenue cor. Hi-way Seno, Subangdaku, Mandaue City
7	Tacloban	Zamora St., Tacloban City
8	Tagbilaran	EB Gallares Building, C. P. Garcia Avenue, Tagbilaran City, Bohol
9	Consolacion-Cebu	Highway Consolacion, Barangay Cansaga, Consolacion, Cebu
10	Cebu-Talisay	Door 3, Rosalie Building, Gaisano Fiesta Mall Tabunok, Cebu South Road, Talisay City, Cebu
11	Cebu-Escario	Unit G-08, Capitol Square, Escario St., Cebu City
12	Cebu-Banilad	A.S. Fortuna St., Banilad, Mandaue City, Cebu
13	Roxas City	G/F SJS Building, San Roque St. Ext., Barangay 8, Roxas City, Capiz
14	Boracay	Barangay Balabag, Boracay Island, Malay, Aklan

Mindanao Region

1	Bajada, Davao	G/F DCCCII Building, J.P. Laurel Avenue, Davao City
2	Davao-Sales	Door 7 & 8 JM Bldg., Governor Sales St. Davao City
3	General Santos	GSC SunCity Suites, B-1-03 & B-1-04 National Highway, General Santos City
4	Davao-Lanang	FUJI ONE Building Km. 7 Lanang, Davao City
5	Davao-Toril	Gaisano Grand Mall Toril Unit GL 8B & GL9, Saavedra St., Toril, Davao City
6	Tagum City-Davao	Roxas St. corner Osmeña St. Tagum City, Davao
7	General Santos-Santiago Blvd.	Santiago Boulevard, Barangay Dadiangas South, General Santos City
8	Butuan	Montilla Boulevard cor. T. Calo St., Butuan City, Agusan Del Norte
9	Cagayan de Oro	Lapasan Highway, Corner Camp Alagar, Cagayan de Oro City
10	Cagayan de Oro-Cogon	ALLA Inc. Building, JR Borja St., Barangay 32, Cagayan De Oro City, Misamis Oriental
11	Iligan City	Doromal Bldg. Quezon Avenue Extension, Barangay Villaverde, Iligan City
12	Zamboanga	Wee Agro Building Veterans Avenue, Zamboanga City
13	Ozamis	G/F Insular Life Building, Don Anselmo Bernad Ave., National Highway cor. Jose Abad Santos St., Ozamis City, Misamis Occidental
14	Dipolog	No. 331 P. Burgos St. Dipolog City, Zamboanga Del Norte
15	Dumaguete	Ground Floor C&L Suites Inn, 485 Perdices Street cor. Pinili Street, Barangay Poblacion 3, Dumaguete City
16	Davao-Panabo	Wharf Road, Barangay Sto. Niño, Poblacion, Panabo City.Davao Del Norte
17	Surigao City	Diez St., Barangay Taft, Surigao City, Surigao Del Norte
18	Davao-C.M. Recto	JRL Building 107 C.M. Recto Ave., Brgy. 38-D, Davao City

Based on prevailing costs, the Bank estimates that the development of a new branch costs approximately between ₱5 million to ₱10 million for leasehold improvements, IT infrastructure, and miscellaneous supplies. Leasehold improvements of a branch are typically amortized over the term of the lease while IT investments are amortized over a period of five (5) years.

The Bank intends to lease in the next twelve (12) months an additional twelve (12) branches for its branch network expansion program in the following areas:

<u>1st tranche</u>		**<u>2nd tranche</u>**	
1	Caloocan City (North)	7	City of Alaminos, Pangasinan
2	Apalit, Pampanga	8	San Mateo, Rizal
3	Calasiao, Pampanga	9	San Jose City, Nueva Ecija
4	Iloilo City	10	Dagupan City
5	Balayan, Batangas	11	Santa Cruz, Laguna
6	Taguig City	12	Taguig City

The Bank believes all its facilities and properties are currently in good condition.

Item 3. Legal Proceedings

The Bank has no proceedings that involves a claim for damages that exceed 10% of the current assets of the Bank.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to vote a security holders, through the solicitation of proxies or otherwise.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. 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	Holidngs	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	Foreign	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.

Dividends

PBB is authorized under Philippine laws to declare dividends, subject to certain requirements. The Board is authorized to declare dividends only from its unrestricted retained earnings and these dividends may be payable in cash, shares or property, or a combination thereof as may be determined by the Board. A cash dividend declaration does not require any further approval from shareholders. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of PBB's outstanding capital stock. The Board may not declare dividends which will impair its capital.

Pursuant to Republic Act 8791 and as provided for in the Manual of Regulations Banks, PBB cannot declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. PBB cannot likewise declare dividends, if at the time of its declaration it has not complied with the following:

a) Its clearing account with BSP is not overdrawn;

b) BSP's liquidity floor requirement for government funds;

c) BSP's minimum capitalization requirement and risk-based capital ratio;

d) Prescribed EFCDU/FCDU cover consisting of 30 per cent liquidity cover and 100 percent asset cover

e) Statutory and liquidity reserves requirement;

f) It has no past due loans or accommodation with BSP or any institutions;

g) It has no net losses from operations in any one or two fiscal years immediately preceding the date of dividend declaration;

h) It has not committed any of the major violations enumerated in the Manual.

The Manual provides that banks whose shares are listed in the Philippine Stock Exchange may give immediate notice of such dividend declaration to SEC and PSE; provided that no record date shall be fixed for such dividend declaration pending verification by the appropriate department of the BSP.

As of this date the Bank has not adopted a specific dividend policy which defines a minimum percentage of net earnings to be distributed to its common shareholders.

On July 16, 2012, the Bank's shareholders and Board of Directors approved the declaration of stock dividends amounting to ₱2.0 billion from its unrestricted retained earnings. In the same meeting, the Board also approved the payment of cash dividends to the preferred shareholders in the total amount of ₱100.35 million. Payment of these dividends were approved by BSP and SEC. On November 16, 2012, the Bank obtained approval for the issuance of 200,000,000 new common shares each at a par value of ₱10.00, in relation to this stock dividend declaration and the payment of cash dividends to the preferred stockholders.

On May 5, 2014, the BOD approved the declaration of cash dividends amounting to ₱62.3 million for all issued and outstanding preferred shares and stock dividends totaling ₱85.8 million common shares amounting to ₱858.3 million for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2013. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 30, 2014 and June 26, 2014, respectively.

On August 19, 2015, the BOD approved the declaration stock dividends totaling ₱107.3 million common shares amounting to ₱1.1 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2014. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 29, 2015 and August 4, 2015, respectively.

On March 15, 2017, the BOD approved the declaration of 20% stock dividends amounting to ₱1.1 billion for the Bank's 536.5 million common shares.

There has been no Stock Options offered by the Bank.

Item 6. Management's Discussion and Analysis or Plan of Operation

Overview

PBB is a savings bank whose principal banking activities are focused on the corporate and SME markets. Among the Bank's principal products are corporate and consumer loans, deposit products, treasury and trust products and trade financing, among others. The Bank was formed in 1997 and today, has a network of 142 branches and 149 ATMs located all over the country.

The Bank's capital as of year-end 2017 stood at ₱10.2 billion while book value per share net of preferred was ₱14.9.

As of December 31, 2017, the Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio was 13.1% and 14.0%, respectively. Return on average assets and return on average equity were 1.0% and 6.5%, respectively.

Factors Affecting the Bank's Results of Operations

Set out below are the most significant factors which have affected the Bank's operating results in the past and which are expected to affect the Bank's results in the future. Factors other than those set forth below may also have a significant impact on the Bank's results of operations and financial condition in the future.

Interest Rates

Fluctuations in the interest rates in the market can have a material impact on the Bank by affecting its interest income, cost of funding as well as the general performance of the Bank's loan portfolio and other assets. The profitability of the Bank depends on its ability to manage its assets and liabilities particularly during periods when interest rates are volatile. An increase in interest rates may adversely affect earnings as it results in a higher cost of funds for the Bank and portfolio value of its assets.

Regulatory Environment

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.

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.

Philippine and Global economic environment

The Bank's business and operations and assets are based in the Philippines and hence, the results of operations and performance and quality and growth of PBB's assets depend, to a large extent, on the performance of the Philippine economy. The Philippine economy, in turn, has also been adversely affected by the downturn in the global financial markets as well as the slowdown in the U.S. economy. Monetary policies worldwide formulated in response to the financial crisis resulted in a decline in interest rates. Interest rates in the Philippines have recently declined which could affect the Bank's income and margins.

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**

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.

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.

B. Key Performance Indicators

CAR: Capital Adequacy Ratio was at 14.0%, higher than BSP's minimum requirement of 10.0%.

Asset Quality: The Bank's non-performing loans ratio improved, from 2.5% in 2016 to 2.2% this year.

Profitability: Return on Average Equity (ROAE) decreased from 7.5% in 2016 to 6.5% as of December 2017.

Liquidity: The Bank's loans-to-deposits ratio (BSP formula) as of December 31, 2017 increased from 87.3% in 2016 to 96.0% due to rapid growth of PBB's loan portfolio.

Asset efficiency: Return on Average Assets (ROAA) remained flat at 1.0% in December 2017.

Book value per share as of December 31, 2017 was at ₱14.9 from ₱13.9 in December 31, 2016, both adjusted after the 20% stock dividend declaration this year.

The following table shows the key performance indicators for the past three (3) calendar years ending December 31, 2017 (in %):

Performance Indicator	2015	2016	2017
ROAE	6.1	7.4	6.5
ROAA	0.8	1.0	1.0
CAR	17.7	17.0	14.0
Loans – Deposit Ratio (BSP Formula)	75.9	87.3	96.0
NPL Ratio (BSP Formula)	2.9	2.5	2.2
Book value per share[1]	12.2	13.9	14.9

Note: Adjusted for stock dividends of 20% in 2017

Critical Accounting Policies

For information on the Bank's significant accounting judgments and estimates, please refer to notes 2 and 3 of the Bank's financial statements included as attachment of SEC17-A.

Description of Comprehensive Statement of Income

Revenues

Interest Income. Interest income is interest generated from PBB's loans and receivables. The Bank also generates interest income from amounts due from other banks, investment securities and securities purchased under resale agreements.

Interest Expense. Interest expense refers to interest paid or accrued on deposits, bills payable and other fund borrowings.

Net Interest Income. Net interest income is equal to interest income after deducting interest expense.

Impairment Losses. Impairment losses refer to estimated losses in the Bank's loan portfolio, investment securities, investment properties and other risk assets.

Other Income

Other income is composed of the following:

Trading gains – net. This line item comprises results arising from trading activities which include gains and losses from changes in fair value of financial assets held for trading as well as gains from the sale of trading and investment securities.

Services charges, fees and commissions. The Bank earns service charges, fees and commissions from various financial services it provides to its customers. These fees include investment fund fees, custodian fees, commission income, credit related fees, asset management fees, portfolio and advisory fees.

Miscellaneous Income. Miscellaneous income also comprises foreign exchange gain, gain on asset foreclosures and dacion transactions, trust fees, gain on sale of assets and miscellaneous items.

Other Expenses

Other expenses are the Bank's general and administrative expenses composed primarily of salaries and employee benefits, taxes and licenses, rent and fees, depreciation and amortization and other operating costs.

Tax Expense

Tax expense relates mainly to the corporate income tax payable by the Bank which is composed of a two per cent (2%) minimum corporate income tax and a regular income tax of 30 per cent. The Bank is also subject to final taxes of 7.5 per cent (on the Bank's FCDU deposits with other institutions), 10 per cent (on onshore income from FCDU transactions), and 20 per cent (final withholding tax on tax-paid income).

C. Discussions on Key Variable and Other Qualitative and Quantitative Factors

Vertical and Horizontal Analysis

Financial Condition as of December 2017 vs December 2016:

Total resources as of December 2017 ended at ₱87.3 billion, a 24.2% increase versus last year's ₱70.3 billion. Significant changes (more than 5%) in assets were registered in the following accounts:

- Cash and other cash items declined by 8.8% due to the higher volume of transactions this year
- Due from BSP grew by 5.6% owing to the 28.4% increase in mandatory reserves
- Due from other banks strengthened by 145.7% as a result of the increased placements with other banks
- Trading and investment securities were 65.6% lower due to the limited trading opportunities in 2017
- Loans and other receivables expanded by 37.2% on account of the increase in lending activities
- Bank premises, furniture, fixtures, and equipment dropped by 9.2% as additions were lower in 2017
- Investment properties were down by 5.6% on account of the ₱73.6 million disposal during the year

PBB's total liabilities ended at ₱77.0 billion against 2016's ₱60.7 billion, up by 26.9%.

- Current deposits increased to ₱1.2 billion from ₱1.1 billion in 2016
- Savings deposit as of December 2017 reached ₱26.8 billion, a 15.8% increase
- Time deposits expanded by 31.3% in 2017
- Bills payable stood at ₱1.9 billion as of year-end 2017
- Accrued expenses and other liabilities declined by 11.5% as bills purchased dropped by 54.7% this year

Total equity ended at ₱10.2 billion in 2017, a 6.9% increase over the ₱9.6 billion figure in 2016. Book value per share net of preferred shares increased by 100 basis points from ₱13.9 in 2016 to ₱14.9 in 2017.

Financial Condition as of December 2016 vs December 2015:

As mentioned, the Bank's total resources increased to ₱70.3 billion as of year-end 2016, a 7.1% increase from ₱65.6 billion in 2015. Significant changes (more than 5%) in assets were registered in the following accounts.

- Loans and other receivables expanded by 23.2% from ₱41.7 billion in 2015 to ₱51.4 billion in 2016 due to the reorganization of the Bank's lending unit to streamline its account management process.

- Other resources grew by 5.4% from ₱1.7 billion to ₱1.8 billion YoY.

On the other hand, deposit liabilities grew to ₱58.9 billion compared to last year's ₱55.0 billion, a 7.1% increase.

- CASA increased by 11.8% from ₱21.7 billion in 2015 to ₱24.2 billion in 2016.

- Time deposits as of end December 31, 2016 stood at ₱34.7 billion, a 4.0% growth versus last year's ₱33.4 billion.

- The Bank paid out all of its bills payable amounting to ₱956.3 thousand as of December 31, 2016.

- Accrued expenses and other liabilities dropped by 14.7% YoY from ₱2.1 billion to ₱1.8 billion.

As of year-end 2016, the Bank's capital stood at ₱9.6 billion versus ₱8.5 billion in 2015. Book value per share was at ₱16.7 from ₱14.6 last year.

Financial Condition as of December 2015 vs December 2014:

As mentioned, PBB's assets grew to ₱65.3 billion as of December 31, 2015. This is 13.4% higher as compared to ₱57.9 billion as of December 31, 2014. Significant changes (more than 5%) in assets were registered in the following accounts.

- 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 68.5% from ₱4.6 billion in December 31, 2014 to ₱7.7 billion in December 31, 2015 due to increased deposits to BSP as a result of very liquid position during the year 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.

- Loans and Receivables 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.

- 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 m in December 31, 2015

- Other resources increased by 87.3% or ₱796.7 million from ₱912.1 million in December 31, 2015 to ₱1.7 billion in December 31, 2014.

On the other hand, PBB's 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 ₱956,250 in December 2015.

- Accrued expenses and other liabilities decreased by 27.8% or ₱807.9 million from P2.9 billion in December 31, 2015 to ₱2.1 billion in December 31, 2014.

Shareholder's equity stood at ₱8.5 billion compared to ₱8.0 billion in 2014, a 5.6% increase.

Results of Operations

For the year ended December 31, 2017 vs. December 31, 2016

- Interest income as of 2017 stood at ₱3.9 billion owing to the 33.4% increase in interest income on loans and other receivables.

- Interest expense totaled ₱841.8 million in 2017 from ₱734.7 million in 2016. The 14.6% increase is primarily due to the increase in interest expense from deposit liabilities as the Bank's deposit portfolio grew by 24.8% and the ₱14.8 million interest expense in bills payable.

- Service charges, fees, and commissions expanded by 32.6% as a result of the increase in lending transactions while miscellaneous income declined by 44.4% owing to the ₱43.0 million drop in fees in relation to services rendered by the Bank as transactions were lower this year versus 2016.

- Operating expenses in 2017 recorded an 11.9% growth primarily due to the increase in salaries and other employee benefits to complement the growing manpower requirements of PBB.

- Core income reached ₱1.0 billion as of December 2017, a ₱338.6 million increase YoY.

- Trading gains dropped to ₱139.1 million due to the limited trading opportunities during the year.

- Impairment losses expanded by 65.9% from ₱157.0 million last year to ₱260.5 million this year resulting in the 4.3% decline in its year-end net income.

For the year ended December 31, 2016 vs. December 31, 2015

- As of year-end 2016, the Bank's interest income grew by 2.1% from ₱3.1 billion to ₱3.2 billion YoY due to the 53.1% increase in interest income from BSP and other banks and the 4.0% growth of interest income from loans and other receivables.

- Overall interest expense declined by 3.1% from ₱758.3 million in 2015 to ₱734.7 million in 2016 largely due to the 99.6% decrease in interest expense on bills payable in 2016 from ₱3.3 billion to ₱12.8 thousand.

- Service charges, fees, and commissions grew by ₱19.0 million or 14.4% YoY and miscellaneous income by 15.4% from ₱73.4 million in 2015 to ₱84.7 million in 2016.

- Trading gains expanded by 382.7%, bringing the total for full year 2016 ₱335.4 million compared to last year's ₱69.5 million.

- Non-interest expenses increased by 13.1%, or ₱232.3 million, from ₱1.8 billion in 2015 to ₱2.0 billion in 2016 as a result of the Bank's initiative to expand its branch network.

- Pre-tax pre-provision profit expanded by 17.6% or ₱154.0 million from ₱877.5 million in 2015 to ₱1.0 billion in 2016 largely due to the ₱265.9 million increase in trading gains.

- As a result, net income as of December 31, 2016 strengthened by 33.2% from ₱502.1 million as of year-end 2015 to ₱668.6 million, a ₱166.5 million increase.

For the year ended December 31, 2015 vs. December 31, 2014

- PBB's interest income increased from ₱2.8 billion in 2014 to ₱3.1 billion in 2015 largely due to the increase in loan volume to ₱41.7 billion in 2015 from ₱40.1 billion in 2014. Another factor is the increase of securities purchased under reverse repurchase agreements from ₱545.8 thousand in 2014 to ₱1.9 million in 2015. Interest due from BSP increased from ₱37.2 million in 2014 to ₱69.7 million due to the increase in volume of Deposit from BSP to cover deposit liability reserves.

- Overall interest expense expanded from ₱600.6 million in 2014 to ₱758.3 million in 2015, up 26.3% or ₱ 157.7 million generally because of the significant boost in the general deposit of 18.01%.Volume of deposit expanded from ₱46.6 billion in 2014 to ₱55.0 billion in 2015.

- Service charges, fees and commissions increased by 3.9% YoY, while Miscellaneous income declined by ₱70.7 million or 49.1%.

- Trading gains increased by ₱34.6 million resulting in ₱69.5 million for this year.

- 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. This decrease in miscellaneous income caused the 13.5% decrease in the core income.

- 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.

- Net income amounted to ₱502.1 million, which is 6.4% lower YoY from last year's ₱536.2 million.

Cash Flows

The following table sets forth selected information from PBB's statements of cash flows for the periods indicated:

	For period ended December 31		
	2015	2016	2017
Cash and cash equivalents, beginning of the year	7,760.03	11,777.92	9,362.20
Net cash provided by (used in) operating activities	5,878.80	(9,737.40)	(398.20)
Net cash provided by (used in) investing activities	(1,552.36)	7,258.77	1,657.72
Net cash provided by (used in) financing activities	(308.57)	(956.25)	1,854.52
Net increase (decrease) in cash and cash equivalents	4,017.89	(2,479.59)	3,114.05
Cash and cash equivalents, end of the year	11,777.92	9,362.20	12,476.25

Net Cash Flow Provided By (Used In) Operating Activities

Net cash flow provided by operating activities is composed of deposits generated and loans and receivables. As of December 31, 2017, net cash used in operating activities amounted to a negative ₱398.2 billion. During this time, the Bank expanded its loans and receivables by ₱19.1 billion while deposits grew by ₱14.6 billion. Impairment losses for the year also expanded by 65.9% to ₱260.5 million. As of the years ended December 31, 2016 and 2015, cash flow from operating activities was negative ₱9.7 billion and ₱5.9 billion respectively.

Net Cash Flow Provided By (Used In) Investing Activities

Net cash flow provided by or used in investing activities involves the purchase and sale of available for sale securities and held-to-maturity investments, capital expenditure, and proceeds from the disposal of investment and other properties. As of December 31, 2017 net cash used in investing activities amounted to ₱1.7 billion, with funds generated mainly from the proceeds from sale of investments amounting to ₱4.8 billion. Net cash used in investing activities for 2015 and 2016 were negative ₱1.6 and ₱7.3 billion.

Net Cash Flow Provided By (Used In) Financing Activities

Net cash flow provided by financing activities is mainly composed of the availment and settlement of the Bank's bills payable and payment of cash dividends. As of December 31, 2017, PBB recorded a use of cash flow from financing activities of ₱1.9 billion to avail bills payable net of the ₱79.2 million payment of cash dividends.

Capital Resources

The Bank is required to comply with the capital adequacy requirements based on the requirements for stand-alone thrift banks under BSP's Circular No. 688 issued in May 26, 2010.

The following table sets out details of the Bank's capital resources and capital adequacy ratios (as reported to the BSP).

₱ millions	**As of the years ended December 31**		
	2015	**2016**	**2017**
Tier 1 capital	8,709	9,241	9,809
Tier 2 capital	376	470	678
Total qualifying capital	9,085	9,711	10,487
Risk weighted assets	51,340	57,154	74,920
Tier 1 capital ratio	17.0	16.2	13.1
Total capital ratio	17.7	17.0	14.0

Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation

There are no events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation.

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the period ended December 31, 2016 and 2017 came from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that had a material effect on the Bank's financial position and results of operations.

Commitments and Contingent Liabilities

The following is a summary of the Banks commitments and contingent accounts as of December 31, 2017:

In ₱ millions	2015	2016	2017
Investment management accounts	4,059,027,956	1,938,042,428	2,352,423,750
Outstanding letters of credit	1,193,799,732	807,107,561	626,860,238
Trust and other fiduciary accounts	506,103,798	796,018,046	753,922,571
Unit investment trust fund	31,812,677	34,259,888	31,562,003
Late deposits / payments received	9,736,574	7,615,931	14,996,909
Outward bills for collection	8,423,324	53,479,103	4,358,349
Items help for safekeeping	68,979	66,919	93,083
Items help as collateral	9,416	8,720	11,066
Other contingent accounts	529,127,518	543,038,687	239,479,318
Total	**6,338,109,974**	**4,179,637,283**	**4,023,707,287**

Among the Bank's contingent accounts are the following trust arrangements:

1. Investment Management Arrangement (IMA). An agency arrangement that involves the prudent investment of funds on behalf of the clients;

2. Trust and Other Fiduciary Accounts (TOFA) include: Living trust, a trust created during the trustors' lifetime and involves the transfer of funds and other assets to a trustee for management and eventual distribution to intended beneficiaries; employee benefit trust, a trust established by a company for the benefit of its employees in addition to salaries or wages; escrow, a three party arrangement whereby the escrow agent is appointed as a disinterested or neutral party to protect the interest of the two parties to the contract; and other fiduciary arrangements;

3. Unit Investment Trust Fund (UITF). A pooled fund created to offer investment opportunities to small investors.

The Bank has ₱4.0 billion in contingent liabilities of which, ₱3.1 billion or 78.0% are in trust arrangements which include investment management accounts, trust and other fiduciary accounts, and unit investment trust fund.

Selected information disclosed in the Audited Financial Statements

Classifying 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. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances – for example, selling an insignificant amount close to maturity – 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.

In 2008, the BSP and the SEC allowed the reclassification of certain financial assets that were previously classified under FVTPL and AFS categories, due to the tainting in 2006, back to HTM investments or loans and receivables. Accordingly, despite the tainting prohibition until 2008, the Bank reclassified its investments in debt securities previously classified under FVTPL and AFS securities to HTM investments amounting to ₱18.8 million and ₱2,130.8 million, respectively, representing the fair value of the reclassified investments on September 11, 2008, the effective date of reclassification, as allowed under FRSP for banks.

On September 14, 2009, however, the Bank reclassified its remaining HTM investments to AFS securities with carrying value of ₱2,621.7 million. As such, the Bank was not allowed to classify as HTM investments its existing and new acquisitions of financial assets due to tainting until 2011. Starting 2012, the tainting of the Bank had been lifted.

Management of Liquidity Risks through MCO Limits

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 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 equals 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.

DOSRI Loans under Related Party Transactions

Total outstanding DOSRI loans as of December 31, 2016 and 2017 pertain to loan transactions with its officers and employees and related parties amounting to ₱1.2 billion and ₱768.0 million.

Earnings per Share

The Bank's earnings per share (EPS) as of December 31, 2017, 2016 and 2015 is ₱0.99, ₱0.92, and ₱0.78, respectively. This is computed by dividing the net income net of dividends of ₱640.1 million, ₱589.4 million, and ₱502.1 million, by the weighted average number of outstanding common shares.

Item 7. Financial Statements

The audited financial statements of the bank are filed as part of this for SEC17-A as "ANNEX A".

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Punongbayan & Araullo (P&A), a member firm of Grant Thornton International Limited, has been the bank's independent accountant for the last eight (8) years and is again recommended for appointment at the scheduled stockholders meeting.

None of the Bank's external auditors have resigned during the most recent fiscal years (2015 and 2016) or any interim period. In compliance with SEC Memorandum Circular No. 8, Series of 2003, and Amendments to the SRC Rule 68 on the rotation of external auditors or signing partners of a firm every after five (5) years of engagement, Mr. Leonardo D. Cuaresma, Jr. was assigned in 2014 as an independent reviewer and partner in charge for the bank replacing Mr. Benjamin P. Valdez. Representatives of P&A are expected to be present at the meeting to respond to matters relating to the Auditor's report on the 2016 financial statements of the bank that maybe pertinently raised during the meeting. Their representatives will be given opportunity to make a statement if they so desire.

The Bank has paid the following fees to P&A relative to the regular and special engagements rendered by the latter that are reasonably related to the performance of the audit review of the Bank's financial statement:

Audit Fees For	In ₱
Dec 31, 2011	721,412.31
Jun 30, 2012	752,640.00
Sep 30, 2012	978,432.00
Dec 31, 2012	824,320.00
Dec 31, 2013	2,609,152.00
Dec 31, 2014	2,475,405.61
Dec 31, 2015	2,324,278.38
Dec 31, 2016	2,599,735.16
Dec 31, 2017	2,864,643.60

No other services were rendered by P&A that were not related to the audit and review of the Bank's financial statements.

There were no disagreements with P&A on accounting and financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

Directors and Executive Officers

a. The following are the names of the incumbent Directors of the Bank:

Incumbent	Age	Nationality	Position with the Bank	Date of election
Amb. Alfredo M. Yao	73	Filipino	Chairman Emeritus	Jul 26, 2010
Francis T. Lee	69	Filipino	Chairman	Apr 30, 2010
Jeffrey S. Yao	50	Filipino	Vice Chairman	April 1, 2016
Rolando R. Avante	59	Filipino	President & Chief Executive Officer	Nov 2, 2011
Amador T. Vallejos, Jr.	71	Filipino	Director	Apr 27, 2012
Honorio O. Reyes- Lao	74	Filipino	Director	Apr 29, 2011
Danilo A. Alcoseba	66	Filipino	Director	May 27, 2016
Roberto A. Atendido	71	Filipino	Director	May 26, 2006
Leticia M. Yao	65	Filipino	Director	Apr 29, 2011
Paterno H. Dizon	80	Filipino	Independent Director	Apr 2006
Benjamin R. Sta. Catalina, Jr.	70	Filipino	Independent Director	Jul 16, 2012

BUSINESS EXPERIENCE

The following is a brief description of the business experience of each of the Directors of the Bank:

Alfredo M. Yao (Filipino, 73 years old)

Mr. Alfredo M. Yao is the Chairman Emeritus of PBB. He is con-currently the Chairman of Zest-O Corporation, Semexco Marketing Corp., and Asiawide Refreshments Corp.He isthe President of Solmac Marketing Inc., Harman Foods (Phil.) Inc., and Amchem Marketing, Inc. andwas a former director of Export and Industry Bank. Mr. Yao has participated in the following seminars: Corporate Governance; AML and Risk Management, all conducted by the Pacific Management Forum and PBB; CISA for the Credit Bureau; SME Related Issues; and other CTB Related seminars. He has also attended several Philippine Chambers of Commerce &Industry (PCCI) Business Fora given by PCCI, the International Trade Organization, and the Department of Trade and Industry.

Francis T. Lee (Filipino, 69 years old)

Mr. Francis T. Lee was appointed Chairman of the Board on July 26, 2010 and was last re-elected as Director on May 26, 2017. Before holding the Chairmanship position, Mr. Lee was first appointed as Chief Operating Officer (COO) last September 1, 2011. He was also President of the AMY Foundation - the social responsibility arm of the Yao Group of Companies, from December 8, 2003 up to December 8, 2013.

An experienced banker for more than 30 years. Mr. Lee started his banking career with Pacific Bank. 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 joining PBB. Mr. Lee has participated in the following seminars: 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; Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2012 and in 2014; and Corporate Governance Seminar for Board of Directors on December 10, 2015.

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

Committee(s): Asset & Liability, Bid, Credit, Executive, Manpower, Compensation & Remuneration, Remedial & Special Assets, and Trust.

Jeffrey S. Yao (Filipino, 50 years old)

Mr. Jeffrey S. Yao was appointed to the Board in 1999. On April 01, 2016, he assumed the position of Vice-Chairman.

He currently holds directorship at Asiawide Refreshments Corporation. Mr. Yao has been the Chief Operating Officer (COO) of the Zest-O Corporation since 2005. 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 has attended the following training programs: Basics 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; Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; and Distinguished Corporate Governance Speaker Series on August 24, 2015.

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

Committee(s): Audit, Credit, Executive, IT Steering, Manpower, Compensation & Remuneration, Remedial & Special Assets, and Risk Oversight.

Rolando R. Avante (Filipino, 59 years old)

Mr. Rolando R. Avante was appointed 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.

His banking career includes stints as Vice President for Local Currency Desk at City Trust 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.

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 at the Citibank APBI; Capital Market Instruments in Asia in 1992, Asset & Liability Management in 1995 both conducted by Euro money; 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 Deutche 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 on December 10, 2015.

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.

Committee(s): Anti-Money Laundering, Asset & Liability, Credit, Employee Discipline, Executive, Management, Manpower, Compensation & Remuneration, Remedial & Special Assets, and Trust.

Amador T. Vallejos, Jr. (Filipino, 71 years old)

Mr. Amador T. Vallejos, Jr., was appointed to the Board on 27 April 2012 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.

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.

His expertise and trainings 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; Corporate Governance Seminar for Board of Directors in November and in December, 2014; Updated Guidelines on Sound Credit Risk Management on August 07, 2015.

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

Committee(s): Audit, Corporate Governance, IT Steering, Manpower, Compensation, Remuneration, Related Party Transaction, and Risk Oversight.

Honorio O. Reyes- Lao (Filipino, 74 years old)

Mr. Honorio O. Reyes-Lao, was appointed to the Board on 29 April 2011 and last re-elected as Director on 26 May 2017.

A seasoned banker, he has more than 40 years of experience in corporate and investment banking, branch banking, and credit management. Mr. Reyes-Lao started his banking career at China Banking Corporation in 1973 to 2004. He served as Senior Management Consultant from 2005 to 2006 at East West Banking Corporation

His expertise was sought by Antel Group of Companies, as Consultant, in 2007 to 2009 and was appointed President at Gold Venture Lease and Management Services, Inc. from 2008 to 2009.

Currently, he is an independent and non-executive director at the DMCI Holding Corporation and a Member of the Society of Institute of Corporate Directors (ICD) Fellows since 2004.

His background and trainings include Overall Banking Operations at the Philippine Institute of Banking in 1971 to 1972; Director Certification Program at the Institute of Corporate Directors (ICD) in 2004; and the AMLA Seminar at the Bangko Sentral ng Pilipinas in 2014; ASEAN Corporate Governance Conferences and Awards 2016 on November 14, 2015; Distinguished

Corporate Governance Speaker Series on August 24, 2015.

Mr. Lao holds a post-graduate degree, Masters in Business Management, from the Asian Institute of Management and he graduated with a double degree in Bachelor of Science in Business Administration major in Economics and Bachelor of Science in Commerce major in Accountancy from the De La Salle University.

Committee(s): Related Party Transaction, Risk Oversight & Trust.

Danilo A. Alcoseba (Filipino, 66 years old)

Mr. Danilo A. Alcoseba was the former President & CEO of PBB and was appointed to the Board on 26 May 2017. Mr. Alcoseba obtained his college degree, Bachelor of Science in Commerce, Major in Accounting, at the University of San Carlos. He also has a post-graduate in Industrial Economics at the University of the Philippines in 1976. His work experience include: Branch Head at Bancom Development Bank, Cebu Branch from 1977-1979, Assistant Vice-President of Traders Royal Bank from 1979-1983, First Vice-President/Treasury Division of Boston Bank of the Philippines from 1983-1998 and Consultant at SM Investments Corporation from 2005-2007. He also had various trainings and seminars in banking related fields such as financial derivatives, fixed income trading, foreign exchange, investment banking, corporate governance, risk management and international trade.

Committee(s): Audit, Corporate Governance, Related Party Transaction, and Risk Oversight.

Roberto A. Atendido (Filipino, 71 years old)

Mr. Roberto A. Atendido, was appointed to the Board on 26 May 2006 and last re-elected as Director on 26 May 2017.

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. 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., Philippine Business Bank, PICOP Resources, Inc., Pharmarex, Inc. Ardent Property Development Corp., First Ardent Property Corp., and GEM Communications & Holding Corp. He is also Vice Chairman and Director of Sinag Energy Philippines, Inc., (since 2008), Chairman and President of Myka Advisory and Consulting Services, Inc. (since 2010).

He has also held directorships in the past in the 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 attended trainings 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. In 2014, he attended the Anti-Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas, Distinguished Corporate Governance Speaker Series on August 24, 2015, 2015 Distinguished Corporate Governance Speaker Series 2 on September 15, 2015 and 2015 Distinguished Corporate Governance Speaker Series 3 on November 06, 2015

Mr. Atendido is a graduate of the Asian Institute of Management with a Master's Degree in Business Management 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.

Committee(s): Audit, Related Party Transaction, Risk Oversight and Corporate Governance.

Leticia M. Yao (Filipino, 65 years old)

Leticia M. Yao was appointed to the Board on 29 April 2011 and last re-elected as Director on 26 May 2017.

A well-respected figure in the healthcare industry, Yao was appointed at the United Doctors Medical Center (UDMC) as a Consultant at the Department of Medicine from 1991 to 2012.

She participated in training sessions for Corporate Governance & Risk Management for Banks' 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, Distinguished Corporate Governance Speaker Series on August 24, 2015 and Corporate Governance Seminar for Board of Directors on December 10, 2015 to hone her skills as Director of PBB.

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.

Committee(s): Trust.

Paterno H. Dizon (Filipino, 80 years old)

Mr. Paterno H. Dizon, was appointed Independent Director to the Board on 27 April 2012 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 from 1997 to 2003.

Mr. Dizon held directorships at 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 Chairman of the Phil. Exporters' Confederation Inc. since 1990 up to the present. He has been the President and CEO of Holy Cross College of Pampanga since 2012.

He has attended training sessions in Financial Management at SGV in 1974, Money and Banking from the Ateneo De Manila University in 1959, 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; ASEAN Corporate Governance Conferences and Awards 2016 on November 14, 2015; Distinguished Corporate Governance Speaker Series on August 24, 2015.

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.

Committee(s): Audit, Corporate Governance, Related Party Transaction, and Risk Oversight.

Benjamin R. Sta. Catalina, Jr. (Filipino, 70 years old)

Mr. Benjamin R. Sta. Catalina, Jr., 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 was the Senior Vice President of the Asset Based Finance Group of FNCB Finance Co. from 1980 to 1981. He later joined Citibank N.A. from 1981 to 1995 where he has 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 Training Center as Regional Administrator. He was appointed to 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 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 attended training seminars such as the 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 has 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, Distinguished Corporate Governance Speaker Series on August 24, 2015 and 2015 Distinguished Corporate Governance Speaker Series 2 on September 15, 2015.

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.

Committee(s): Audit, Corporate Governance, Related Party Transaction, and Risk Oversight.

b. Executive Officers

The following are the Executive Officers of the Bank, and their respective age, citizenship and position as of March 16, 2018:

Rolando R. Avante (Filipino, 59 years old)

Mr. Rolando R. Avante was appointed 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.

His banking career includes stints as Vice President for Local Currency Desk at City Trust 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.

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 at the Citibank APBI; Capital Market Instruments in Asia in 1992, Asset & Liability Management in 1995 both conducted by Euro money; 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 Deutche 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 on December 10, 2015.

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.

Committee(s): Anti-Money Laundering, Asset & Liability, Credit, Employee Discipline, Executive, Management, Manpower, Compensation & Remuneration, Remedial & Special Assets, and Trust.

Peter N. Yap (Filipino, 70 years old)

Mr. Peter N. Yap, 70, was appointed Chief Marketing Officer (CMO) on January 2018. He was the former Chief Operating Officer of PBB from April 2017 to December 2017 and Vice Chairman from 2 August 2010 to 31 March 2016 prior to his retirement.

In the span of his 40-year successful banking career, he held various positions from Manager in RCBC in 1977, Senior Manager to Executive Vice President and Head of Retail Banking Group of Allied Banking Corp. from 1978 to 2009.

He also held directorships in Allied Savings Bank from 2009 to 2010; Allied Leasing and Finance Corp. from 2009 to 2010; and Bancnet, Inc. from 2003 to 2009 where he was also elected as the Treasurer. Mr. Yap was also elected director in Insular Savers Bank from October 2015 to March 2016.

He has attended training sessions such as the Officer Development Program in 1977 at RCBC; Management Development Workshop in 1978, Negotiable Instrument Seminar in 1979, International Workshop in 1979, Bank Selling Skills Program in 1980, Break-Even Analysis Workshop in 1982 all conducted by Allied Bank; AHI Developing Executive Skills in 1981 at the ASEAN Banking Council; Management Development Program – Kaizen in 1982 at Ancella, Inc.; 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; Corporate Governance Seminar for Board of Directors in November and in December, 2014; Distinguished Corporate Governance Speaker Series and the ASEAN Corporate Governance Conference and Awards in 2015 conducted by the Institute of Corporate Directors.

Mr. Yap graduated from the University of San Carlos with the degree of Bachelor of Science in Chemical Engineering and has taken MBA units from the University of the Philippines - Visayas.

Committee(s): Anti-Money Laundering and Management.

Atty. Roberto S. Santos (Filipino, 68 years old)

Atty. Roberto S. Santos is the Corporate Secretary and holds the position of Vice-President and Head of the Legal Services Group. In his 37-year experience in banking and finance, he was a Manager at Traders Royal Bank since 1980, held various executive positions with Security Bank from 1982 to 1999, General Manager of Security Finance Company from 1997-2001, and was the Head of the Legal Department of Metrobank Card Corporation from 2002 to 2004. Atty. Santos later joined PBB as Assistant Vice-President in 2008.

Committee(s): Anti-Money Laundering, Employee Discipline, Management, and Remedial & Special Assets.

Joseph Edwin S. Cabalde (Filipino, 48 years old)

Mr. Joseph Edwin S. Cabalde is the Treasurer and holds the position of Senior Vice-President and Head of the Treasury Services Group. His work experiences include: Accounting Assistant and Assistant Secretary Head of China Banking Corporation from 1991 to 1993; Treasury Officer of Urban Bank Inc. from 1993 to 1995; Manager and Chief Dealer of Bangkok Bank

Manila, and of Bank of Tokyo Mitsubishi from 1995 to 2004; Treasury Head of Oilink International from 2004 to 2007 and Assistant Vice-President and Treasurer of EEI Corporation from 2007 to 2008. Mr. Cabalde attended the Corporate Good Governance and AML Seminars sponsored by PBB.

Committee(s): Asset & Liability, IT Steering, and Management.

Teresita S. Sion (Filipino, 65 years old)

Ms. Teresita S. Sion is the Assistant Vice President and Trust Officer of PBB. Her banking experiences include: Per Pro of the Trust Services Group at Philippine Commercial International Bank from 1976 to 1991; Officer-in-Charge of the Trust Banking Group of Metropolitan Bank and Trust Company from 1991 to 1995 and later became the Senior Manager of the Trust and Investment Department of All Asia Capital which she held until September of 1998; Vice President and Head of the Trust Banking Group of Export and Industry Bank, Inc from October 1998 to November 2006; Consultant on Financial Matters of MRC Allied, Inc from August 2008 to May 2009; and was also the Consultant for Trust Banking Sector of Asiatrust Development Bank from May 2009 to July 2009. She was later appointed as Vice President and Trust Officer of the same bank until February 2012. She joined PBB in February 2012 as Marketing and Business Development Officer and became the Assistant Vice President and Trust Officer on November of the same year.

Committee(s): Management and Trust.

Felipe V. Friginal (Filipino, 63 years old)

Mr. Felipe V. Friginal is the First Vice-President and Group Head of the Branch Operating and Control Group. He held various positions at United Coconut Planters Bank such as Cashier from 1984 to 1986; Branch Accountant of Northern Luzon Branches from 1986 to 1989; Assistant Manager - Cashier from 1989 to 1991; Senior Assistant Manager - Cashier from 1991 to 1992; Senior Manager from 1992 to 1998; Assistant Vice-President - SMC Branch Head from 1998 to 1999; and Assistant Vice-President GMA 6 Area Head from 1999 to 2003.

Committee(s): Anti-Money Laundering, Asset & Liability, Bid, Credit, Employee Discipline, IT Steering, and Management.

Rosendo G. Sia (Filipino, 62 years old)

Mr. Rosendo 'Rudy' Sia joined Philippine Business Bank in July 2016. He is the Senior Vice President/Group Head of the Business Development Group for Visayas and Mindanao. His task is to generate business from new clients as well as development and deepen further banking relationship with existing bank clients.

In 1977, he began his career as an Assistant Chief Accountant of Rizal Securities Corp., then on the same year he joined Guzman, Bocaling &Co., CPAs, an Auditing Firm as an Auditor and became a Senior Auditor before moving to the Central Bank of the Philippines, now BSP, as a Non-Bank and Bank Examiner from 1981 to 1988. He joined Land Bank of the Philippines as a Branch Manager from 1988 to 1993 where he was assigned in the Provincial branches of Tuguegarao City, Cebu and Dumaguete City, among others. He joined Metrobank in 1993 up to 2012 as Branch Head in Metro Manila area where he rose from the ranks from Senior Manager to Senior Vice President and held various key positions and committee memberships. Before joining PBB he was connected with Asia United Bank from 2012 to 2016 as Senior Vice President / Branch Banking Head for Visayas and Mindanao in concurrent capacity as Branch Lending Group Head.

Mr. Sia is a graduate of the University of the East and is a Certified Public Accountant and Masters in Business Administration from De La Salle Graduate School and Asian Institute of Management.

Committee(s): Management.

Reynaldo T. Boringot (Filipino, 60 years old)

Mr. Reynaldo T. Boringot joined Philippine Business Bank in July 2016. He is appointed as the Head of Luzon and NCR Area of Business Development Group with the rank of Senior Vice President. One of his major responsibilities is to bring in new clients for the bank through a variety of sales techniques. Also, he provides additional products/services to already existing clients.

He has 37 solid years of experience as a Banker. He began his career as a rank and file in Pacific Bank from 1980 to 1985. He transferred to Metropolitan Bank & Trust Company from 1986 to 2003 as one of the youngest Branch Heads at the age of 30. Moreover, he was able to open a new branch in Tugatog, Malabon. He was later then transferred to Edsa - Caloocan as one of the youngest Center Heads. Finally, he transferred to Asia United Bank, his last employer prior to PBB where he started as Assistant Vice President in 2003 and became a Vice President concurrent as Area Head in Quezon City and the whole of Luzon until 2016.

Mr. Boringot graduated from the University of the East in 1980 with a degree in Bachelor of Science in Commerce major in Management. He took his MBA units from the Philippine School of Business Administration in 1982 to 1983.

Committee(s): Management.

Eduardo R. Que (Filipino, 56 years old)

Mr. Eduardo "Poy" Que, First Vice President and Group Head of Corporate Banking, joined PBB in 2012 after 31 years with Allied Banking Corporation. He top-notched his officer training class and was appointed official trainer / lecturer in the Officer Development Program of Allied Bank for subjects International Banking Operations (Foreign/Domestic Trade); Credit Management; Business Development; Account Management; and Loans and Corporate/Merchant Banking. He is the most senior account officer for Corporate Banking Division where he spent about 20 years. He graduated college at De La Salle University, Bachelor of Science in Commerce, Major in Management of Financial Institutions and was a Dean's Lister. Mr. Que pursued his Masters Degree at Ateneo de Manila, Rockwell - Masters in Business Administration (MBA), full course Dean's Lister, batch top-notcher and Gold Medal Awardee in academics.

Committee(s): Asset & Liability and Management.

Rodel P. Geneblazo (Filipino, 47 years old)

Mr. Rodel P. Geneblazo is the First Vice President and Consumer Banking Group Head of Philippine Business Bank. He held this position effective January 2018.

A seasoned banker, he has more than 20 years of experience in consumer finance and credit management services. He started his banking career at PCIBank from 1996 to 2000 as Management Development Program Trainee and rose to Head the Consumer Finance Unit in General Santos City. He joined Chinatrust Bank from 2000 to 2008 and held the positions of Head of Mortgage Loans, Head of Product Development, and Head of Credit Policy & MIS. He went to East West Bank in 2008 to 2010 as Head of Credit Services.

In 2010, Mr. Geneblazo joined Sterling Bank of Asia as Head of Credit Services up to 2012. He then became the Managing Director of Knowledge Transfer Financial Consulting Services where he provided trainings, seminars, and consultancy works in the area of consumer and microfinance loans, credit cycle management, Collections, MIS & Analytics, product development and management, both for the private and public institutions such as Maybridge Asia and Finance, the Department of Agrarian Reform, DES financing, FICO Bank, Philippine Veterans Bank, among others, from 2012 to 2014. He went back to the banking industry in 2014 and joined Philippine Veterans Bank as Head of MIS & Analytics, and later, as its Risk Officer.

He joined Philippine Business Bank in 2015 initially as a Consultant and later became the Head of PBB's Acquired Banks. He was appointed as President of Insular Bank, a rural bank that was acquired by PBB in the same year until December 2017. He moved back to PBB in the beginning of 2018 and became its Consumer Banking Group Head up to the present.

Mr. Geneblazo is a graduate of the Polytechnic University of the Philippines with a degree in Bachelor of Science in Mechanical Engineering in 1992 where he was also a scholar of the Hasegawa Universal Lab Corporation. He took his Masters in Business Administration degree in 1996 from the University of the Philippines and was a National Economic and Development Authority (NEDA) scholar.

Committee(s): Asset & Liability and Management.

Jacqueline A. Korionoff (Filipino, 40 years old)

Ms. Jacqueline Korionoff is the Assistant Vice President and Center Head of the Commercial Banking I at Philippine Business Bank, a position she has held since April 2016. She worked with the banking industry since 2000.

She first started as an executive secretary at the New City Toys Manufacturing from 1999 to 2000, then joined the banking industry as Document Analyst at the Jade Progressive Savings and Mortgage Bank in 2000. She started as a Marketing Assistant in PBB under the Account Management Group 1 from 2001 to 2002, then was promoted to Account Officer from 2002 to 2004. Under the same group, she became an Assistant Manager from 2004 to 2005, then Senior Assistant Manager from 2005 to 2006. In 2006, she was promoted to Manager and later promoted as Senior Manager in 2008.

Ms. Jacq has participated in various banking seminars, particularly on credit and Corporate Governance. She is a graduate of the University of Santo Tomas with a degree in Bachelor of

Arts major in Economics in 1999. She took her Masters in Business Administration in 2004, also from UST where she graduated Cum Laude. She took up a one-year course on Trust Operations and Investment Management from the Trust Institute Foundation of the Philippines of the Asian Institute of Management (AIM) where she passed the course with distinction.

Committee(s): Asset & Liability and Management.

Iris P. Almerino (Filipino, 38 years old)

Ms. Iris Almerino is the Assistant Vice President and Center Head of the Commercial Banking II at Philippine Business Bank, a position she has held since April 2016. She worked with private companies under the accounting department from 2001 to 2006.

She started as a Marketing Assistant in PBB in 2007 to 2009 and was promoted to Manager and Account Officer from 2009 to 2015 under Account Management Group 1. On that same year, Iris was promoted to Senior Manager and Market Head under the Branch Lending Unit 1 where she handled the Binondo and Caloocan accounts.

Ms. Almerino has participated in various banking seminars, particularly on credit and AMLA. She is a graduate and an academic scholar of the New Era University with a degree in Business Administration major in Management, and is consistent in the dean's list program. She took her Masters in Business Administration degree from Rizal Technological University.

Committee(s): Asset & Liability and Management.

Efren P. Mercado (Filipino, 68 years old)

Mr. Efren P. Mercado is the Vice President and Head of the PBB's Commercial Banking Group - Centers 3&4. He started as Paymaster at Del Mar Carriers from 1968 to 1970. His banking career started at Philippine Banking Corporation from 1970 to 1988 with a variety of positions from Rank and File to Managerial. He also joined China Banking Corporation in 1992 to 2005 and had held several Managerial and Executive positions including Branch Manager, Area Head and Senior Assistant Vice President. He joined PBB in March 2011.

Committee(s): Asset & Liability and Management.

Clarissa S. Rivera (Filipino, 48 years old)

Ms. Clarissa S. Rivera is Vice President and Head of Commercial Banking Group Center VIII of PBB. She graduated with the degree of BSBA Accounting from Miriam College and is a Certified Public Accountant. Ms. Rivera also holds the degree of Doctor of Business Administration from Colegio de San Juan de Letran. She was previously connected with Planters Development Bank as Manager and Head of Credit and Customer Service from 2004 to 2008; Assistant Manager/Account Officer of International Exchange Bank from 2002 to 2004; Manager/Account Officer of Asiatrust Bank from 2001 to 2002; and occupied various positions with Shopping Center Management Corporation, CIPI Leasing & Finance Corporation, and Philippine National Bank. She joined PBB in June 2008.

Committee(s): Asset & Liability and Management.

Roselle M. Baltazar (Filipino, 43 years old)

Ms. Roselle M. Baltazar is the First Vice-President and Assistant Comptroller at the same time, Head of Central Operations Group of PBB. In 1999, she joined PBB and held various managerial and executive positions including: VP-COG Head - January 2011- June 2012, On June, 2012, appointed as Assistant Controller; Assistant Vice President & COG Head - March 2005-December 2010; Senior Manager and Head of Central Operations Group from 2004 to 2005; Senior Manager and Head of Branch Operations Control Center (BOCC) from 2001 to 2004; Senior Manager and Head of General Services Center (GSC) from 2001 to 2003; Manager and Head of Systems and Methods Sector (SMS) from 2000 to 2001; and Assistant Manager and Senior Systems Analysts from 1999 to 2000. She started her banking career at Westmont Bank (now United Overseas Bank) as: Accountant from 1996 to 1999, Audit Examiner II from 1995 to 1996, Loan Assistant from August 1995 to October 1995, and CASA Bookkeeper from June 1995 to August 1995. She is a Certified Public Accountant and a Civil Service (Professional and Sub-Professional) eligible.

Committee(s): Anti-Money Laundering, IT Steering, and Management.

Laurence R. Rapanut (Filipino, 55 years old)

Ms. Laurence R. Rapanut is the Assistant Vice President and Internal Auditor of PBB. Her work experiences include: Junior Examiner of Far East Bank and Trust Company from June 1985 to January 1988; Junior Examiner to Branch Controller of First Philippine International Bank from September 1988 to January 1995; Branch Accountant to Senior Assistant Manager of Westmont Bank from April 1996 to December 2000; and Senior Assistant Manager to Manager of United Overseas Bank from January 2001 to January 2006. She joined PBB in March 2006 as Supervising Examiner of Internal Audit Center.

Committee(s): Bid, Employee Discipline, and Management.

Miami V. Torres (Filipino, 56 years old)

Ms. Miami V. Torres is the Vice-President and Head of the Credit Management Group. She is a graduate of AB Behavioral Science and BSC Accounting from the University of Santo Tomas. Ms. Torres is a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants. She has with her 29 years of banking experience which started in 1984 as a junior bookkeeper in UCPB, handling SA, CA, CTD, Proofsheet, GL and remittances. She had 2 years experience as a Senior Analyst in the same Bank before she became an officer. As an officer, Ms. Torres was assigned as Branch Operations Officer and Branch Marketing Officer. Her last stint with UCPB was as Branch Head for Pasay Rotonda Branch. From 2002 to present, she held various managerial and executive positions with PBB: Branch Head of Antipolo Branch in 2002; Section Head of Remedial & Special Assets Management Group (RSAM) in 2003; Head of Credit Services Group from 2006 to 2008; Head of RSAM from 2008 to 2010; and Head of Credit Services Group from 2010 up to present.

Committee(s): Credit and Management.

John David D. Sison (Filipino, 33 years old)

Mr. Dave Sison joined Philippine Business Bank in July 2014. He leads the Bank's Corporate Planning Group, which plays a key role in the bank's strategic management, investor relations functions, and M&A initiatives. He is also part of the MIS unit that leads the profit planning performance analysis of the Bank which assists senior management in the process of decision-making and tracks performance of the Bank's business units.

Prior to PBB, he was a private equity analyst with KGL Investment Company Asia since 2008. Before joining KGL, Dave was an investment banking associate with PNB Capital & Investment Corporation, a boutique investment bank offering financial advisory, debt syndications, and corporate finance services. He began his career in finance as an investor relations analyst with ABS-CBN Corporation.

He graduated in 2006 with a Bachelor of Science degree in Management Engineering (an Honors Program) from the Ateneo de Manila University where he received training in traditional management disciplines (marketing, finance, operations management, organizational behavior, and strategic management), economics, and the social sciences in combination with skills development in qualitative and quantitative analysis, mathematics, statistics, and operations research. Mr. Sison completed the Value Investing Program at Colombia Business School in New York City.

Committee(s): Asset & Liability and Management.

Belinda C. Rodriguez (Filipino, 56 years old)

Ms. Belinda C. Rodriguez joined Philippine Business Bank on January 2016 as Chief Risk Officer (CRO) and Head of Enterprise Risk Management Group. As CRO, she is responsible for the supervision of the implementation of the risk management framework as part of corporate governance whereby risk management policies and best practices are instituted.

Ms. Rodriguez is a seasoned bank executive with 33 years of experience in the financial services industry and a strong background in enterprise risk management honed from job exposure from her employment both on the regulator (BSP) as examiner and regulated private and government banks. Most recently, she served as First Vice President for Asia United Bank, where she held various positions for eighteen years that included the CRO, Chief Compliance Officer (CCO), and head of the branch banking operations support and treasury operations.

She was Executive Vice President for Operations and Controllership of Town Savings Bank. She was head of Treasury Operations of foreign-owned Dao Heng Bank. After BSP, she joined the Management Training Program of Land Bank of the Philippines and then later became head of the Treasury Operations and Product Development. During her career, she has managed a number of activities involving operations and control functions. Other areas of expertise include audit, compliance, remittance, and resource optimization through improved controls, re-engineering and process realignment.

Ms. Rodriguez has participated in and continues to join various banking industry forums on risk management, regulatory compliance, AMLA, and credit risk. She was a resource speaker on the topic of Risk Management of the RBAP Institute for almost ten years. She is a graduate of state university, Polytechnic University of the Philippines with a degree in Commerce major in

Accounting and is a Certified Public Accountant (CPA). Ms. Rodriguez has completed her MBA Degree from the Ateneo Graduate School of Business (AGSB).

Committee(s): Asset & Liability and Management.

Consuelo V. Dantes (Filipino, 55 years old)

Ms. Consuelo V. Dantes was appointed as the Human Resources Group Head with the rank of Senior Vice-President effective March 2017. She brings with her 33 years of expertise in the field of Human Resources Management, Corporate Support Services Group, and Business Unit Management. She was recently employed with EastWest Bank (EWB) as Human Resources Group Head from May 16, 2013 to July 31, 2016. Apart from being the Head of HRG, she was also the Chief of Staff from May 16, 2012 to May 15, 2013 under the Office of the President where she worked with 12 units - Credit, Human Resources, Collection and Asset Recovery, Legal Services, Customer Service, Consumer Lending, Corporate Banking, and Administrative Services.

Prior to her stint with EWB, she was with PlantersBank (now China Bank Savings) for 22 years from June 18, 1990 to March 31, 2012 where she held various lead positions in Human Resources, Corporate Communications, Corporate Planning, and Collection and Asset Recovery. She was an international consultant for Human Resource Management under ShoreCap Exchange, the training arm of ShoreCap International, and worked as consultant with Cambodia Entrepreneur Building Co., Ltd. in Cambodia. She was also a speaker/facilitator in seminar-workshops conducted by ShoreCap Exchange in Chennai, India, and Luxembourg. Also, during her stint with PlantersBank (now ChinaBank Savings) she was at one point appointed as the President and Chief Operating Officer of PDB-FMO Development Center (PDCenter).

In addition, Ms. Dantes' other banking experience also include stints with the following banks: Boston Bank of the Philippines (now Bank of Commerce - Branch Marketing and Development Group / Manager); Asiatrust Bank - Manager of Market Planning Group; and Security Bank Corporation - Branch Manager of Buendia Branch.

A Cum Laude graduate from University of the Philippine - Diliman with a degree in Bachelor of Arts in Economics, she took her MBA units with De La Salle University. Ms. Dantes is a Professional Executive Coach certified in the US-based International Coach Federation (ICF) way, by Benchmark Consulting.

Committee(s): Employee Discipline and Management.

Jose Maria P. Valdes (Filipino, 61 years old)

Mr. Jose Maria P. Valdes was appointed Information Technology Group Head on July 2017 with the rank of First Vice President.

A prominent figure in the field of IT, Mr. Valdes started his career with Carlos J. Valdes & Co. CPAs as a Senior Consultant from 1979 to 1988; CityTrust Banking Corp. as IT Manager from 1988 to 1992; and he became the IT Director for Dart Philippines from 1992 to 1997.

He came back to the banking industry as Chief Information Officer at ChinaTrust Bank from 1997 to 2002; and CIO again at Export and Industry Bank from 2002 to 2007. Prior to joining PBB, he was IT Director at Encash, Inc. from 2007 to 2017.

He attended the Anti Money Laundering Act Seminar in 2003 and 2017; and Corporate Governance Seminar in 2004.

Mr. Valdes graduated from the De La Salle University with a double degree in Bachelor of Science in Commerce major in Management of Financial Institutions and Bachelor of Arts in Behavioral Sciences.

Committee(s): IT Steering and Management.

Identify Significant Employees

Although PBB has relied on and will continue to rely on the individual and collective contributions of each of its executive officers, senior operational personnel and non-executive employees, PBB believes that it does not depend on the services of a particular employee and that there is no employee that the resignation or loss of whom would have a material adverse impact on its business.

Family Relationships

Ambassador Alfredo M. Yao and Leticia M. Yao are siblings.

Jeffrey S. Yao is the son of Ambassador. Yao.

Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among directors, executive officers and nominees for election as directors.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Bank have been involved in any legal proceedings during the past five (5) years, including without limitation being the subject of any:

1. Bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;

2. Conviction by a final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

3. Order, judgment or decree not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities commodities or banking activities; and

4. Order or judgment of a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization finding him/her to have violated a securities or commodities law or regulation.

Item 10. Executive Compensation

The following table sets forth the aggregate compensation received by its key management officers:

In ₱ millions		Aggregate Compensation Paid as a Group		
NAME	**POSITION**	**2015**	**2016**	**2017**
CEO and the four (4) most highly compensated officers of the Bank namely:		21.95	23.81	27.93
Rolando R. Avante	President & CEO			
Joseph Edwin S. Cabalde	Treasurer			
Agustin E. Dingle, Jr.*	Chief Compliance Officer			
Reynaldo T. Boringot	Business Development Officer			
Consuelo V. Dantes	Human Resources Group Head			

**Note: Retired as of January 31, 2018*

Total Aggregate Compensation of Directors and Officers of the Bank as a group:	**Salary**	**Other Compensation**	**Bonus**	**Total**
2015	196.81	16.77	50.00	263.58
2016	248.30	19.21	57.80	325.31
2017	291.87	21.23	68.76	381.86

Compensation of Directors

Each director of the Bank receives a per diem allowance of ₱20,000.00 determined by the Board of Directors for attendance in a Board meeting and a ₱5,000.00 allowance for attendance in a committee meeting. The Directors are also entitled to a monthly gasoline allowance of ₱5,000.00. Except as disclosed above, none of these Directors receive any additional compensation for any special assignments.

Except for each of the individual Directors' participation in the Board, no Director of the Bank enjoys other arrangements such as consulting contracts or similar arrangements.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

PBB has executed pro-forma employment contracts with its Staff and Officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Bank in the event of a change in control of the Bank.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The following persons own at least five per cent (5%) of the Bank's outstanding common shares:

Title of Class	Name, Address of Record Owners and relationship with the issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	No. of shares held	Per cent of class
Common	Alfredo M. Yao 84 Dapitan St. corner Banawe St. Sta. Mesa Heights, Quezon City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	239,838,309	37.26%
Common	Zest-O Corporation 574 EDSA Caloocan City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	162,052,923	25.17%
Total Common Shares				401,891,232	62.43%

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.

Security Ownership of Management

The following directors and executive officers of the Company directly own approximately 4.82% percent of the Company's issued and outstanding common stock as of December 31, 2017 as follows:

Name of Director	Nationality	Present Position	No. of Shares	Class
Francis T. Lee	Filipino	Chairman	26,505,000	Common
Jeffrey S. Yao	Filipino	Vice Chairman	1,620,535	Common
Rolando R. Avante	Filipino	President & CEO	626,048	Common
Honorio O. Reyes-Lao	Filipino	Director	254,998	Common
Amador T. Vallejos, Jr.	Filipino	Director	38,575	Common
Leticia M. Yao	Filipino	Director	1,680,535	Common
Roberto A. Atendido	Filipino	Director	108,750	Common
Danilo A. Alcoseba	Filipino	Director	120	Common
Paterno H. Dizon	Filipino	Independent Director	132,558	Common
Benjamin R. Sta. Catalina	Filipino	Independent Director	56,358	Common
Joseph Edwin S. Cabalde	Filipino	Treasurer	14	Common
Atty. Roberto Santos	Filipino	Corporate Secretary	15,000	Common

The aggregate shareholdings of the Bank's Directors and Officers as a group is 4.82% with a total of 31,038,491 number of shares.

Voting Trust Holders of 5% Or More

The Bank is unaware of any person holding more than five per cent (5%) of shares under a voting trust or similar agreement.

Changes in Control

There have been no arrangements that have resulted in a change of control of the Bank during the period covered by this report.

Item 12. Certain Relationships and Related Transactions

The Bank's related parties include entities under common ownership, key management and others as described below.

	2016		**2017**	
	Transaction	Balance	**Transaction**	**Balance**
Entities Under Common Ownership				
Deposit Liabilities	6,891,205,514	6,471,966,695	**914,160,412**	**7,386,127,107**
Interest Expense	64,390,172	-	**66,106,681**	**-**
Loans	1,217,879,975	1,212,117,019	**527,860,985**	**767,983,251**
Interest Income	44,013,008	2,832,634	**29,782,815**	**969,508**
Retirement Fund				
Contribution	37,133,819	-	**37,133,819**	**-**
Plan Assets	83,356	42,457,190	**163,694,753**	**202,904,139**
Key Management Compensation	101,934,057	-	**113,530,990**	**-**

i. DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2016 and 2017.

Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 18).

ii. DOSRI Loans

The Bank has loan transactions with its officers and employees. 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.

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. In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. However, non-risk loans 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 as of December 31 in accordance with BSP reporting guidelines:

	December 31, 2016	**December 31, 2017**
Total outstanding DOSRI loans	₱ 1,212,117,019	**₱ 767,983,251**
Unsecured DOSRI loans	9,856,451	**29,210,591**
Past due DOSRI loans	-	**-**
% to total loan portfolio	2.3%	**0.0%**
% of unsecured DOSRI loans	0.8%	**3.9%**
% of past due DOSRI loans	0.0%	**0.0%**

The details of total outstanding DOSRI Loans for the year ended December 31, 2016 and 2017 are shown below:

	2016	**2017**
Commercial loans	P 1,178,196,248	**P 732,434,589**
Key management personnel	33,920,770	**35,548,662**
	P 1,212,117,018	**P 767,983,251**

The Bank leases the following properties from affiliated parties:

Property	Owner
Banawe, Quezon City branch	Solmac Marketing Inc.
EDSA Kalookan branch	Solmac Marketing Inc.
Quintin Paredes, Binondo branch	Downtown Realty Investment Corporation
Grace Park branch	SMI Development Corporation
Yakal Makati branch	AMY Leasing Company

iii. Transactions with Retirement Fund

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments by any restrictions or liens.

iv. Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

	2015	2016	**2017**
Salaries and Wages	₱ 58,902,581	₱ 72,088,807	₱ 81,600,760
Bonuses	14,890,912	17,987,189	20,562,459
Post-Employment Defined Benefit	7,004,439	9,024,121	8,533,196
Short-term Benefits	76,024,569	92,099,936	104,997,794
Other Short-term Benefits	1,052,380	1,325,223	1,283,950
Social Security Costs	1,178,696	1,508,717	1,550,625
Total	₱ 159,053,577	₱ 194,033,993	**₱ 218,528,784**

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Philippine Business Bank, Inc. commits to the highest standards of good corporate governance in realizing its vision and mission. The Bank believes that sound corporate practices based on fairness, accountability and transparency is essential in achieving growth and stability as well as enhancing investor confidence.

The Bank aims to create and sustain value for its various stakeholders. To achieve this, the Bank's Board of Directors, senior management and employees understand that compliance with regulations and best practice standards is everybody's responsibility. The Bank accomplishes this by adopting measures designed to align the shareholders' and senior management's objectives with that of the employees.

The Board of Directors conducts its functions as a full Board and through its six (6) committees, namely: Executive, Trust, Corporate Governance and Nomination, Audit, Risk Management and Manpower, Compensation and Remuneration. Board-approved Corporate Governance policies are contained in the Manual of Corporate Governance which is based on the Corporate Code of the Philippines, Securities Regulations Code, SEC Revised Code of Corporate Governance and relevant provisions of the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. Every member of the organization of Phlippine Business Bank, Inc. is informed of these policies.

The Bank's Code of Ethics ensures that all employees adhere to the highest standards of quality, honesty, transparency and accountability. To further emphasize its commitment to integrity, the Philippine Business Bank, Inc., under its Whistle Blowing Policy, encourages employees to report, in good faith, to Senior Management any misconduct within their respective business units. The policy protects in confidence the identity of the employee who disclosed the suspected offence within the organization.

Philippine Business Bank, Inc. values the contribution of its employees in fostering a culture of good corporate governance. The Human Resource Group and the Personnel Committee ensure that interests and concerns of personnel are heard and addressed.

Going beyond adherence to regulatory framework, Philippine Business Bank, Inc. fosters a culture of partnership within its organization to ensure that long-term success and performance of the Bank are achieved.

The Corporate Governance and Nomination Committee leads the Bank in defining corporate governance policies and attaining best practices. As one of its strategic governance roles, the Corporate Governance and Nomination Committee reviews and evaluates the qualification of individuals nominated to the Board as well as those nominated to other positions requiring appointment by the Board. The Committee is responsible for the periodic administration of performance evaluation of the Board and its committees. It conducts an annual evaluation of its performance in accordance with the criteria provided in the 2009 SEC Code of Corporate Governance and the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. The Committee is assisted by the Compliance Office led by the Chief Compliance Officer in the implementation of its mandates. The Committee, consisting of two (2) independent directors (one of whom acts as chairperson) and one (1) regular director meets every two months.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

Annex A………………………………………….. Audited Financial Statements

(b) Reports on SEC Form 17-C

State whether any reports on SEC Form 17-C, as amended were filed during the last six month period covered by this report, listing the items reported, any financial statements filed and the dates of such.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in City of CALOOCAN CITY on__________, 20__.

By:

FRANCIS T. LEE
Chairman

ROLANDO R. AVANTE
President and Chief Executive Officer

ROSELLE M. BALTAZAR
Assistant Comptroller

ROLANDO G. ALVENDIA
Chief Accountant

ATTY. ROBERTO S. SANTOS
Corporate Secretary

SUBSCRIBED AND SWORN to before me this _____ day of 06 APR 2018 20__ affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	TIN NO.
FRANCIS T. LEE	113-336-814
ROLANDO R. AVANTE	106-968-623
ROSELLE M. BALTAZAR	179-193-899
ROLANDO G. ALVENDIA	107-182-307
ROBERTO S. SANTOS	123-467-623

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BOOK NO. 6
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ATTY. NIÑO CHRISTOPHER R. PURA
Notary Public
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

PHILIPPINE BUSINESS BANK
a savings bank

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

Signed this _____ day of __________, 2018

SUBSCRIBED AND SWORN to before me on 16 APR 2018 affiant/s exhibiting to me his/her Government - Issued ID/s bearing his/her Photograph/s and Signature/s.

DOC. NO. 196
PAGE NO. 29
BOOK NO. 7
SERIES OF 18

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

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288
F +63 2 886 5506
grantthornton.com.ph

Report of Independent Auditors

The Board of Directors and Stockholders
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

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

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
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.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
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.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
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.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
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.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
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)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,114,047,251	(2,479,593,301)	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.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
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 Philippine 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.

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.

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	3,811,727
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	**P31,938,057**	**P28,396,809**	**P21,764,605**	**P24,215,412**	**(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	P25,119,777	P21,024,011	P16,321,829	P24,602,039	(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				
	Current	**Sensitivities**		
Currency	**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	**P2,438,982,840**	**(P 221,002,183)**	**(P 663,006,549)**	**(P 1,105,010,914)**

2016				
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+500 bps
Philippine peso	P4,240,717,456	(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	P7,085,894,808	(P 560,440,231)	(P1,681,320,693)	(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 equals 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**	**P 18,293,673**	**P 15,599,538**	**(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**	**1,933**4
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

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**	P47,420,972,014
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	P51,437,111,465

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

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 Improve-ments	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**	**P 1,363,338,147**
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	P 1,298,299,721
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

Forward

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
January 1, 2016						
Cost	P 84,327,556	P 109,343,864	P 370,921,928	P 130,418,587	P 486,983,266	P 1,181,995,201
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 Improve-ments**	**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.

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:

	Note	**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.

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

	Number of Shares		Amount	
	2017	2016	**2017**	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	**P 5,364,584,370**	P5,364,584,370
Stock dividends (see Note 21.2)	**107,291,657**	-	**1,072,916,570**	-
Balance at end of year	**643,750,094**	536,458,437	**P 6,437,500,940**	P5,364,584,370

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.

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
		P379,348,076	P295,973,454	P266,516,503

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		**P443,200,726**	P383,868,028	P324,688,012
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
		P735,812,499	P635,523,891	P543,446,728

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

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

	2017	2016	2015
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.

(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		Amount of Transaction			Outstanding Balance	
Category	Note	**2017**	2016	2015	**2017**	2016
DOSRI:						
Deposit liabilities	24.1	**P 914,160,412**	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.

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	**P104,997,794**	P 92,909,936	P 76,024,569
Post-employment benefits	**8,533,196**	9,024,121	7,004,439
	P113,530,990	P101,934,057	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
	P104,997,794	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)	**P303,401,295**	P183,050,792	P165,170,994
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)
	P273,247,394	P205,838,450	P203,297,274
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%	**P274,000,048**	P262,338,797	P211,631,783
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	**P273,247,394**	P205,838,450	P203,297,274

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	**P439,084,724**	P368,707,306
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	**P493,343,661**	P413,836,354

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.

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).

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.

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

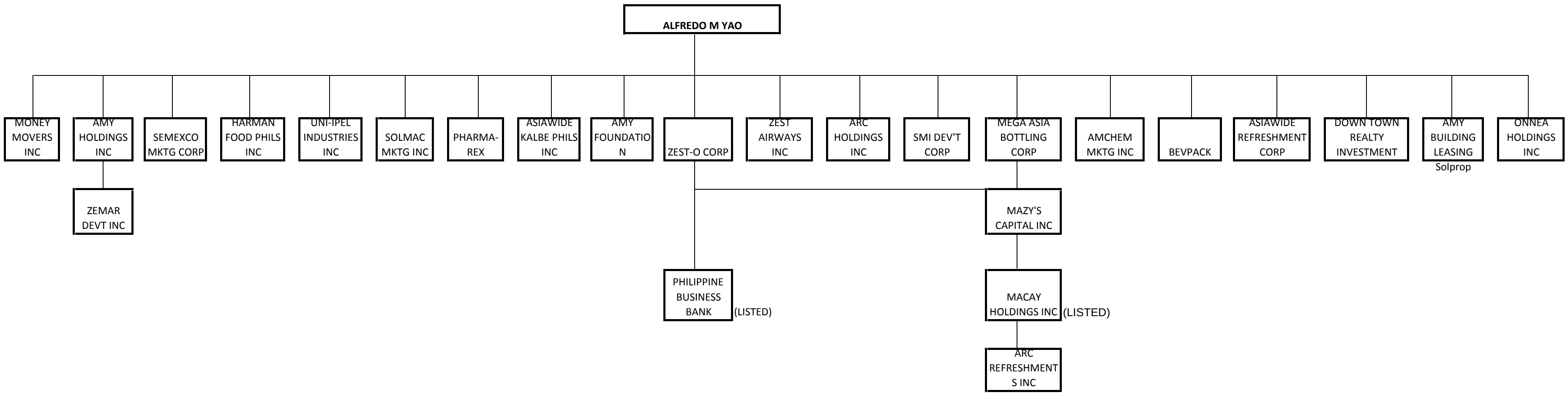
Details of taxable non-operating and other income in 2017 which are subject to regular tax rate are shown below.

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**


ALFREDO M YAO
MONEY MOVERS INC
AMY HOLDINGS INC
ZEMAR DEVT INC
SEMEXCO MKTG CORP
HARMAN FOOD PHILS INC
UNI-IPEL INDUSTRIES INC
SOLMAC MKTG INC
PHARMA-REX
ASIAWIDE KALBE PHILS INC
AMY FOUNDATIO N
ZEST-O CORP
PHILIPPINE BUSINESS BANK
(LISTED)
ZEST AIRWAYS INC
ARC HOLDINGS INC
SMI DEV'T CORP
MEGA ASIA BOTTLING CORP
MAZY'S CAPITAL INC
MACAY HOLDINGS INC
(LISTED)
ARC REFRESHMENT S INC
AMCHEM MKTG INC
BEVPACK
ASIAWIDE REFRESHMENT CORP
DOWN TOWN REALTY INVESTMENT
AMY BUILDING LEASING
Solprop
ONNEA HOLDINGS INC

FINANCIAL SOUNDNESS INDICATORS
(As Required by SRC Rule)

	'December 31, 2017	'December 31, 2016
Current Ratio (1)	50.14%	66.21%
Solvency Ratio (2)	1.13%	1.16%
Debt-to-equity (3)	7.53%	6.34%
Asset-to-equity (4)	8.53%	7.34%
Interest rate coverage ratio (5)	208.49%	219.02%
Return on Equity (6)	6.47%	7.41%
Return on Assets (7)	0.81%	0.98%
Net Interest Margin (8) (9)	3.92%	3.96%
Cost-to-Income Ratio (10)	65.74%	66.11%

Notes:

(1) Current assets divided by current liabilities

(2) Total assets divided by total liabilities

(3) Total liabilities divided by total equity

(4) Total assets divided by total equity

(5) Income before interest and taxes divided by interest expense

(6) Net income divided by average total equity for the periods indicated (annualized)

(7) Net income divided b y average total assets for the periods indicated (annualized)

(8) Net interest income divided by average interest-earning assets (incl. interbank loans, trading and investment securities and loans)

(9) Starting April 2012, the BSP stopped paying interest on reserves on customer deposits of banks. The Q1 2013 computation considered the Bank's deposit with BSP as non-earning. In Q1 2012 and previous to that, it is considered part of earning assets. NIM is Q1 2012 would have been 7.3% if this was to be calculated on same basis as that of Q1 2013

(10) Other expenses (excl. provision for impairment and credit losses)divided by the sum of interest and other income for the periods indicated