

**CTBC BANK (PHILIPPINES)
CORPORATION**

Annual Report Year 2016

2016 Annual Report

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(Additional Disclosures)

Annual Report Year 2016

Submitted to

**Securities and Exchange Commission
(SEC)**

COVER SHEET

AS9508814A

S.E.C. Registration Number

CTBC BANK (PHILIPPINES)
CORP.

Company's Full Name

Fort Legend Towers Third
Avenue corner 31st Street
Bonifacio Global City
Taguig City

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

Atty. Maritess Parilla-Elbinias

Contact Person

9889-287

Company Telephone Number

12

Month

31

Day

Fiscal Year

SEC 17-A (2016 ANNUAL REPORT)

Form Type

05

Month

4

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

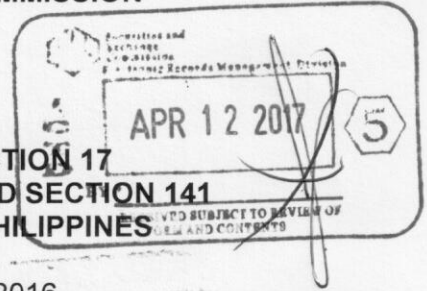
STAMPS

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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, 2016
2. SEC Identification Number ----- AS95008814A
3. BIR Tax Identification No. ----- 004-665-166-000
4. Exact name of issuer as specified in its charter -----

CTBC BANK (PHILIPPINES) CORP.

5. Philippines
Province, Country or other jurisdiction
of incorporation or organization
6. (SEC Use Only)
Industry Classification Code:

1634
Postal Code
7. Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City
Address of Principal Office

(632) 9889 287
8. Issuer's telephone number, including area code

CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION

9. 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

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common Stock, P10 par value	247,968,731
Treasury Shares	484,920

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

Yes [] No [x]

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

**The Philippine Stock Exchange in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Bank's Petition for Voluntary Delisting effective February 24, 2012.*

Check whether the Issuer:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 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 ☒ No ☐

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

Yes ☒ No ☐

13. The aggregate market value of the voting stock held by non-affiliates of the registrant.

Number of shares held by non-affiliates multiplied by share price as of February 20, 2012: Php29,457,160.00.

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. **Not Applicable.**

Yes ☐ No ☐

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 ----- Not applicable

(b) Any proxy or information statement filed pursuant to SRC Rule 20 and 17.1(b)-----Not applicable

(c) Any prospectus filed pursuant to SRC Rule 8.1-1----- Not applicable

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EXHIBITS AND ANNEXES

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Description of Business

Business Development. CTBC Bank (Philippines) Corp. ("Bank") is the Philippine subsidiary of CTBC Bank Co., Ltd. ("CTBC Ltd.") of Taiwan. CTBC Ltd. is the biggest privately-owned commercial bank, the most awarded financial institution in the island nation, and one of the world's top two hundred (200) banks in terms of capital.

The Bank was incorporated on September 7, 1995 initially as Access Banking Corporation, and commenced operation on September 26, 1995 as a domestic commercial bank. The Bank has an authorized capital stock of P3.0 Billion.

On November 22, 1995, the Monetary Board approved the investment of CTBC Ltd. in sixty percent ("60%") of the voting stock of Access Banking Corporation through the outright purchase of fifty percent ("50%") or P487.5 Million of its P975.0 million outstanding voting stock and an additional subscription of P262.5 million of the P275.0 million additional voting stock issued. On January 8, 1996, the Bank's name was changed to Chinatrust (Philippines) Commercial Bank Corporation.

In line with the capital build-up program of the Bank, its Board of Directors approved in 1997 the issuance of 25 million common shares at P10.00 per share from its authorized capital stock via a stock rights offering to existing stockholders. This entitled the existing shareholders to subscribe to one (1) common share for every five (5) shares held. As of December 31, 1997, the stock rights offering was fully subscribed; partial payment to the subscription amounted to P209.99 million which resulted in the Bank's attainment of its P1.647 Billion capital, fully complying with minimum capital requirements of BSP of P1.625 billion by the end of the year. On March 31, 1998, all subscriptions to the stock rights were fully paid. On April 23, 1998, the SEC approved the stock rights offering.

On June 2, 1999, the Bank's share was listed in the Philippine Stock Exchange ("PSE") through an Initial Public Offering ("IPO") of 37,500,000 common shares from its unissued authorized capital stock. The proceeds of the IPO were utilized for branch expansion and investment in information technology.

In December 2000, CTBC Ltd. substantially increased its equity in the Bank through the acquisition of shares held by a minority group, thus controlling approximately 91% of the Bank's capital stock, compared to 57% prior to the acquisition. A further acquisition of shares held by the public representing 9% of the Bank's equity was made by CTBC Ltd. in January 2001 through a tender offer at a price of PhP19.00 per share, the same price at which the shares from the minority group was acquired. To date, CTBC Ltd. holds 99.41% of the Bank's outstanding capital stock.

On August 25, 2005, the Board of Directors of the Bank declared 15% stock dividends out of its unissued shares. It was subsequently approved by the shareholders in a special meeting called for the same purpose on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were issued to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

On December 23, 2011, the Bank a filed Petition for Voluntary Delisting at the Philippine Stock Exchange ("PSE"). Pursuant to the PSE Voluntary Delisting Rules, a tender offer was conducted by the Bank at a tender offer price of Php26.14. The PSE in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Petition for Voluntary Delisting effective February 24, 2012.

On September 19, 2013, the SEC approved the amendment to Article FIRST of the Bank's Articles of Incorporation amending the Bank's name to CTBC Bank (Philippines) Corp. The Bank started using the new corporate name effective October 30, 2013.

On January 23, 2015, Messr. Mark Chen resigned as Director, President and CEO effective March 1, 2015. On the same date, the Board of Directors appointed Mr. Steve Tsai a.k.a. Tsai Wen-Hsiung as Director, President and CEO effective March 1, 2015.

On June 22, 2016, the Bank's stockholders elected the following directors: Jack Lee, William B. Go, Huang Chih-Chung, Frank Shih and Steve Tsai; Messrs. Edwin Villanueva and Ng Meng Tam were elected as independent directors. Messrs. Jack Lee and William B. Go were elected Chairman and Vice-Chairman, respectively.

Based on the data as of December 31, 2016 posted by Business World, out of the forty one (41) universal and commercial banks operating in the Philippines, the Bank ranked 28th in terms of Total Assets; 22nd in terms of Total Loans; 25th in terms of Total Deposits; and 24th in terms of Total Capital.

(2) Business of Issuer

Products and Services. As a full-service commercial bank, the Bank offers various products and services, such as the following:

PESO DEPOSITS

Peso Savings Account
Peso Checking Account
CheckLite Account
Ultimate Earner Checking Account
Peso Time Deposit

FOREIGN CURRENCY DEPOSITS

Dollar Savings Account
Dollar Time Deposit
Dollar Innovate Five-Year Time Deposit
Third Currency Deposits

TREASURY SERVICES

Foreign Exchange
Spot, Forward, Swap & Options
Peso Fixed Income
Treasury Bills
Fixed Rate Treasury Notes
Retail Treasury Bonds
Global Peso Notes
Peso Corporate Bonds
Peso Short Term Commercial Papers
Dollar Fixed Income
ROP Bonds
ROP Onshore Dollar Bonds
Other Sovereign Bonds
Dollar Corporate Bonds

CARD PAYMENTS

CTBC Bank Visa Debit and Cash Card
Co-Branded Cash Cards

CONSUMER LOANS

My Family Home Loan
Salary Stretch Personal Loan (Public and Corporate)
Credit Facility Secured by Deposit
Small and Medium Enterprise (SME) Business Loan

CREDIT FACILITIES & CORPORATE LOANS

Short-term Loans
Term Loan Financing
Syndicated Financing
Omnibus Facilities
Discounting Facilities
Domestic Bills Purchase

CASH MANAGEMENT SERVICES

Account Information Management
NetBanking
E-Mail Statement
Disbursement Management
Payroll
Ultimate CheckWriter
Customs Duties
BIR eFPS
BancNet eGov
MC Bulk Preparation
Receivables Management
Post-Dated Check Warehousing
Ultimate Money Mover (Deposit Pick-up)
BancNet Bills Payment
Bills Payment via Over-the-Counter (OTC)
Merchant Acquiring
BancNet Point-of-Sale (POS)

TRUST AND INVESTMENT SERVICES

Investment Management Account
Personal Management Trust
Employee Benefit Plan Management
CTBC Money Market Fund (a Peso-Denominated Unit Investment Trust Fund)
Escrow Agency
Mortgage Trust Indenture

REMITTANCE SERVICES/TELEGRAPHIC TRANSFERS

Inward Remittances
Outward Remittances

TRADE SERVICES

Letters of Credit
Import Letters of Credit
Domestic Letters of Credit
Standby Letters of Credit
Shipping Guarantee
Import Bills Negotiation
Loans Against Trust Receipts
Documentary Collections – Import & Domestic
Document Against Payment (D/P)
Document Against Acceptance (D/A)
Open Account (O/A)
Direct Remittance (D/R)
Export LC Advising
Export Bills Negotiation

From the foregoing products and services, the Bank's revenues are categorized into three (3) major segments, namely: (1) Portfolio Products; (2) Transactional Banking Products; and (3) Exposure Management Products. The remaining revenues are classified under Others. Portfolio Product revenues consist of spreads earned on loans. Transactional Banking Product revenues consist of spreads earned on deposits as well as fees earned from cash management products and trade services. Exposure Management Product revenues consist of income earned from the investment portfolio and trading activities. Other revenues consist of fees earned on trust services, gain on sales of acquired assets, service fees and charges earned on all other banking activities. The contributions of the 3 major segments in terms of percentage to the Bank's total revenues during the last two years are as follows:

Major Segment	2015	2016
Portfolio Products	56.15%	51.85%
Transactional Banking Products	21.96%	22.74%
Exposure Management Products	14.35%	19.32%

Status of New Products or Services. The Bank launched Wealth Management in May 2016 through the 2&3 year Time Deposit Build Up. Further to this, the Bangko Sentral ng Pilipinas has approved the Bancassurance program to further diversify the Bank's product offerings.

Distribution Network. The Bank's products and services are made available to its clients through its offices, branch network, all automatic teller machines (ATMs), and for some services/products, thru its 40 ATMs and other ATM networks. Likewise, some products can now be accessed through electronic channels i.e. interactive voice response system, internet and short message system (SMS). In addition to its Main Office Branch in Bonifacio Global City, the Bank operates 23 branches as of end of December 2016.

Competition. The Bank faces competition from both domestic and foreign banks that operate in the Philippines. In the light of such competitive environment, the Bank focuses on key businesses to include consumer finance, the trading of fixed-income instruments and foreign exchange, the Taiwanese business, and selective corporate lending. By being a specialist, it is able to properly concentrate its resources and capital to ensure service excellence and good risk management and corporate governance. The Bank likewise adopts applicable business models from its parent bank and custom fits these to local market conditions. These efforts make the Bank a strong player in its chosen businesses.

Sources and availability of raw materials and the names of principal supplies. - Not applicable.

Dependence upon a single/few customers. – Not applicable.

Transactions with and/or dependence on related parties. Except in the ordinary course of business such as DOSRI and employee loans, there are no transactions with and/or dependence on related parties.

Trademarks, Licenses, Franchises., etc. The Bank is the owner of the marks "CTBC" and "We Are Family".

Effect of existing or probable government regulations. As a domestic commercial bank, the Bank is governed by the rules and regulations of the BSP. The Bank observes and complies with all government laws, rules and regulations that exist.

Amount spent on research and development. There are no major expenses on research and development activities and these are just incorporated into the ordinary business expense of the Bank.

Cost and effect of compliance with environmental laws. - Not applicable.

Number of Employees. As of December 31, 2016, the Bank had six hundred twelve (612) employees composed of 395 officers and 217 staff, with 587 regular employees

and 25 probationary employees. The Bank has no existing employees' union. It has also no collective bargaining agreement.

In addition to salary, the Bank gives its employees fringe benefits, consisting of 13th month pay, mid-year bonus, Christmas bonus, performance bonus, medical allowance, health benefits, group life insurance, car plan, company car benefit, parking allowance, meal allowance, out-of-base allowance, salary loans, retirement pay loan, retirement benefits, and various leaves (sick, vacation, emergency, maternity, paternity, solo parent, etc.).

Major Business Risks. The Bank's business activities are exposed to a variety of financial risks – market risks, credit risk, liquidity risk and interest rate risk. The Bank is strongly committed to judiciously managing risks. For this purpose, it has put in place the necessary processes and platforms that enable it to prudently manage all categories of risk. It is the presence of this risk infrastructure and consciousness that has made the Bank either a leader or a major player in businesses where the required core competency is astute risk management capability. The Bank's risk management programs seek to minimize potential adverse effects on its financial performance.

Market risk is the risk that the value of a currency position or financial instrument will fluctuate due to changes in foreign exchange rates and interest rates. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities and derivatives. The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. The Market Risk Management Unit implements a trading risk limits that is in line with the Bank's risk appetite. The Bank also maintains a rigid system of loss limits and action triggers that prompt management to immediately act in the event that these thresholds are breached. These actions may include, but are not limited to, the partial liquidation of existing positions in order to cut losses. The objective of these thresholds is to ensure that losses, if any, will be limited to what the Bank's earning capability can sufficiently cover.

Credit risk is the risk that a borrower /obligor, guarantor, debtor or counterparty, or issuer of a security held by the Bank will not pay the obligation when it falls due. The Bank manages its credit risk by setting limits for individual borrowers and group of borrowers. It also places a cap on exposures to top borrowers, specific products, identified market segments, selected industries and loan tenors. The Bank likewise monitors borrower-specific credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, enters into collateral arrangements with counterparties and limits the duration of the exposures..

Liquidity risk is the risk that the Bank will be unable to meet its obligations as they fall due at a reasonable cost within a reasonable timeframe. To effectively manage liquidity risk, the Bank diversifies its funding sources and maintains a set of prudent liquidity risk limits, liquidity indicators, maturity gap analysis, and maximum cumulated outflows per tenor bucket. In addition, the Bank maintains sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

Interest rate risk in banking book is the risk to future earnings or equity arising from the movement of interest rates. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Bank measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII (1bp Δ NII) focuses on changes in interest income and expense within a year, hence, a short-term perspective. The analysis of such impact on EVE (1bp Δ EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on. Accordingly, both delta Net Interest Income and delta Economic Value of Equity limits in relation to the interest rate sensitivity of the banking book have been established by Management.

In addition to financial risks, the Bank is also exposed to operations risks. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank ensures that specific business policies, processes, procedures and staff are in place to manage overall operational risks by way of identifying, assessing, controlling, mitigating, monitoring and reporting risk events. The Bank manages other types of risks such as regulatory and reputational risk.

Item 2. Properties

Properties Owned

	Type of Property	Account Name	Property Address
1	Condo	Robert Tioxon	Unit 17F, 17TH Floor, 20 Lansbergh Place Condominium, No. 170 Tomas Morato, Ave., cor. Scout Castor St., Brgy. Sacred Heart, Q.C.
2	Condo	Apolinario Gavina	Unit 16-P 16th Floor, Eastwood Parkview Tower 1, Eastwood City, Libis, Q.C.
3	Condo	Sps. Joseph / Teresita Parungao	Unit E23B Gueventville II Condominium, Calbayog cor. Libertad Sts., Brgy. Highway Hills, Mandaluyong City
4	Condo	Eunice Paradero	Unit 17A Tower A Kingswood Towers Condominium, Chino Roces Ave. corner Vito Cruz Ext., Makati City
5	House & Lot *	Jovito Amboyao Escalante	Lot 9,11, 18 & 20 Block 5 Diana Street, Metro Royale Subdivision Phase 1 Brgy. Burgos Rodriguez Rizal
6	House & Lot *	Sps. Frank Luigi/Ma.Theresa San Jose	Lot 45 Block 3 Pili Street, Camella Springville West Phase, 1, Brgy. Molino, Bacoar Cavite
7	House & Lot *	Sps. Joselito/Maria Regina Mendoza	Lot 9 & 11 Block 10 No 8 & 10 Franco Street, Bahayang Pag-Asa Subd. Phase 6, Brgy. Molino, Bacoar Cavite
8	House & Lot *	Sps. Teodirico/Nellie Alcaraz	Lot 9 Block 11 No 1096 La Consolacion Malinta Village, Brgy. Malinta, Valenzuela City

9	House & Lot *	Sps. Raymond/Daisy Quiring	Lot 16-3-2-B-3-C Unit C Camia Street, Manuela Subdivision, Pamplona, Las Pinas City
10	House & Lot *	Sps. JasonPaul/Mariza Truman	Lot 2 Block 10 Terrazas De Punta Fuego, Barangay Natipuan, Nasugbu Batangas
11	House & Lot *	Sps. Leonardo Jr./Rose Marie Lugares	Lot 16 Block 1 Juniper Street, Milflora Villas, Sabang, Baliuag Bulacan
12	House & Lot *	Sps. Remedios V./Leonard P. Rosadio	Lot 8 & 9, Block 2, Albany Street, Golden Meadows Subd, Phase 2-A Brgy Sinalhan, Sta. Rosa Laguna
13	House & Lot *	Sps. Merle/Jessie Carlos	Lot 8 Block 3, Chiavenna Street, Courtyard of Maia Alta Subd., Brgy. Dalig Antipolo City
14	House & Lot *	Sps. Jacqueline/Conrado Guezon	Lot 12 Block 10 J.P. Laurel Street, Carmel Subdivision, Barangay 7, Poblacion, Lipa City, Batangas
15	House & Lot *	Sps. Raquel/Gordon Mateo Tan	Lots 16 & 18, Block 3 Johnson Street corner Ivory Street, Sarrael Village Phase 1, Brgy Bucandala 1, Imus Cavite
16	House & Lot *	Sps. Joseph/Gina Bongo	Lot 12 Block 2 H. Poblador Street, BF Resort Village Brgy. Talon Dos, Las Pinas City
17	House & Lot *	Sps. Rolf Henrick/Cristina Hansen	Lot 5178-D-6-A Paseo Ramon, White Sands Resort Villas, Brgy. Maribago, Lapu-Lapu City, Cebu

* Pursuant to RA7721 & BSP Circular 858

Description of Property the Bank intends to acquire in the next 12 months.

There are no plans to acquire properties within the next twelve (12) months.

Properties Leased

a. Offices

OFFICE	LOCATION	TERM	MONTHLY [AGGREGATE] RENTAL	EXPIRY DATE	RENEWAL TERM
16th to 19th Floors of Fort Legend Towers	Bonifacio Global City, Taguig City 1634	10 years	PhP2,724,074.50	14-Apr-20	90 days notification

b. Condominium Units

LEASED PREMISES	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE	RENEWAL TERM
8Forbestown Road Condominium	Taguig City	1 year	PhP100,000.00	11-Mar-17	30 days notification
8Forbestown Road Condominium	Taguig City	1 year	PhP110,000.00	25-Jan-17*	30 days notification

The Residences at Greenbelt	Makati City	1 year	PhP109,000.00	17-Oct-17	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP80,000.00	28-Feb-17	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP100,000.00	19-Aug-17	30 days notification
Penhurst Parkplace Condominium	Taguig City	1 year	PhP118,000.00	28-Feb-17	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP125,000.00	22-Apr-17	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP136,000.00	07-Ju-17	30 days notification

**renewed, from 26 January 2017 to 24 January 2018*

c. Branches Business Centers

NAME OF BRANCH	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE	RENEWAL TERM
Alabang	Muntinlupa City	5 years	PhP280,961.99	28-Feb-17	60 days notification
Angeles	Angeles City	5 years	PhP160,500.00	14-Jun-21	60 days notification
Ayala	Makati City	5 years	PhP128,828.00	31-Mar-21	60 days notification
Bonifacio Global City	Taguig City	10 years	PhP123,789.19	14-Apr-20	90 days notification
Binondo	Manila	5 years	PhP184,358.87	31-May-21	60 days notification
Buendia	Makati City	5 years	PhP163,815.10	31-May-18	60 days notification
Cagayan de Oro	Cagayan de Oro	5 years	PhP191,272.75	31-Oct-21	60 days notification
Carmona	Cavite	5 years	PhP94,559.35	31-Dec-20	60 days notification
Cavite	Cavite	1 year	PhP76,678.88	30-Dec-17	60 days notification
Cebu-Banilad	Cebu City	5 years	PhP280,962.99	31-Jul-20	60 days notification
Cebu-Magallanes	Cebu City	5 years	PhP189,754.90	30-Sep-21	60 days notification
Cebu-Mandaue	Mandaue City	5 years	PhP177,051.81	31-Jul-21	60 days notification
Davao	Davao City	5 years	PhP160,500.00	30-Jun-21	60 days notification
Dela Costa	Makati City	5 years	PhP258,534.43	14-Oct-21	60 days notification
Del Monte	Quezon City	5 years	PhP125,611.79	1-Jul-17	60 days notification
Greenhills	San Juan City	5 years	PhP234,133.12	31-Jul-18	60 days notification
Iloilo**	Iloilo City	5 years	PhP102,987.50	31-Jan-21	90 days notification
Las Piñas	Las Piñas City	5 years	PhP214,790.73	31-May-17	60 days notification

Mabini	Manila	5 years	PhP148,639.05	30-Jun-19	60 days notification
Marikina	Marikina City	5 years	PhP85,600.00	31-Dec-20	60 days notification
Ortigas	Pasig City	5 years	PhP343,120.86	6-Jul-19	60 days notification
Rada	Makati City	5 years	PhP177,051.81	30-Jun-21	90 days notification
Subic	Zambales	5 years	\$2,866.86	3-Jan-19	90 days notification
Sucut	Paranaque City	5 years	PhP120,614.61	28-Feb-20	180 days notification
Taytay	Taytay Rizal	5 years	PhP83,925.45	20-Jan-19	90 days notification

***This site is for the use of the Bank's Iloilo Branch which was opened on 24 February 2017*

All lease contracts have renewal options upon the terms and conditions mutually acceptable to the Bank and the lessors.

Item 3. Legal Proceedings

Except for cases or proceedings, which are incidental to its business such as suits for sum of money, foreclosures, writs of possession, employee relations, and other cases arising from loan transactions and operations, the Bank has no material pending legal proceedings for or against it.

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

There were no matters submitted to a vote of the security holders during the fourth (4th) quarter of the year covered by the report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

1. Market Information

As stated earlier, the PSE in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Petition for Voluntary Delisting effective February 24, 2012. Market prices of the Bank's shares since 1st quarter of 2010 to 1st quarter of 2012 are as follows:

QUARTER	HIGH	LOW
1Q '12	25.50	20.00
4Q'11	28.00	19.00
3Q'11	21.00	20.00
2Q '11	22.00	21.00
1Q '11	21.00	21.00
4Q'10	23.50	21.00
3Q'10	22.00	20.00
2Q '10	22.00	15.25
1Q '10	25.00	24.00

As of February 20, 2012, which is the last trading date prior the effective date of delisting at the PSE, the information showed a closing price of P20.00.

There was no sale of any securities made by the Bank within the last three (3) years.

2. Holders

The number of shareholders of record as of February 28, 2017 is 110.

Common Shares outstanding as February 28, 2017 are 247,968,731. Out of the said outstanding shares, 484,920 are Treasury shares as a result of the tender offer conducted pursuant to PSE's Voluntary Delisting Rules.

The Top 20 Stockholders of record as of February 28, 2017 are as follows:

Name	Number of Shares Held	% to Total
CTBC Bank Co., Ltd.	246,495,812	99.60
Ma. Asuncion M. Ortoll	241,551	00.10
Alfonso Lao	185,150	00.07
Arlene Ravalo Ulanday &/Or Bethel Ann Ravalo &/Or Eliodoro Ravalo	75,000	00.03
Chen Li Mei	65,992	00.03
Bettina V. Chu	29,095	00.01
Martin M. Ortoll	26,838	00.01
Jose Antonio M. Ortoll	26,838	00.01
Carlos M. Ortoll	26,838	00.01
Ma. Marta M. Ortoll	26,838	00.01
Ma. Beatriz Ortoll-Manahan	26,838	00.01
Ma. Teresa Ortoll-Garcia	26,838	00.01
Ma. Elena Ortoll-Mijares	26,838	00.01

Regan C. Sy	26,450	00.01
PCD Nominee Corporation (Filipino)	13,795	00.01
Ching L. Tan	13,225	00.01
Razul Z. Requesto	13,225	00.01
Guat Tioc Chung	13,225	00.01
Bernardito U. Chu	13,225	00.01
Oliverio Guison Laperal	13,225	00.01

3. Dividends

The Bank declared 15% stock dividends last August 25, 2005, which was subsequently approved by its shareholders on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were paid to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

Any dividend declaration to be made by the Bank is subject to approval by the BSP and SEC. At the regular meeting of the BOD held on June 23, 2015, the BOD approved the amendments on the restriction of the retained earnings for the following purposes: i) to comply with the minimum capital requirements set by the Bangko Sentral ng Pilipinas (BSP) pursuant to Circular No. 854; ii) to comply with the requirements of the Internal Capital Adequacy Assessment Process (ICAAP) pursuant to BSP Circular No. 639; iii) to cover the resulting treasury shares acquired in relation to the Bank's delisting and tender offer exercise; and iv) to provide for buffer to comply with BASEL III requirements.

4. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

There has been no sale of exempt securities nor of securities constituting an exempt transaction within the past 3 years.

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

FY 2015 Compared to FY 2014

Total resources of the Bank expanded by 12% to Php30.67 billion this year as compared to Php27.46 billion level of previous year. These were mainly attributed to growth in Loans and receivables – net, which increased by 14% to Php20.9 billion from Php18.4 billion in December 2014 level, as corporate loan portfolio posted a robust growth. On the other hand, Deposit Liabilities level stood at Php19.32 billion as of year-end 2015 from Php19.01 billion in 2014.

The Bank's net income went up by 422% to Php258 million from Php49 million last year, driven by a hefty increase in service charges and commission income, better net interest margins and increase in trading and foreign exchange income. This performance translated to a 3.8% return on equity (ROE) and 0.9% return on assets (ROA).

Revenues moved up by 9% as non-interest income grew by 33%. The increase was pushed mainly by higher service fees and commission income, which surged to Php265 million in 2015 from Php150 million in 2014. This was due to increase in fees from credit and cash card related transactions. In addition, net interest income rose by 2%, from PhP1.532 billion to PhP1.564 billion. The improvement in net interest income is attributed by a 28% increase in average loan balances, which grew by Php2.87 billion.

The Bank maintained its conservative stance on loan loss provisioning. It set aside Php266 million as provisions for impairment and credit losses for the year. Likewise, the Bank managed to keep the level of its operating cost, which only grew by 2% year-on-year.

Asset quality showed a significant advance in 2015. Non-performing loans (NPL) ratio as of December 31, 2015 improved to 0.84% from 1.26% in December 2014 while NPL coverage expanded to 104.5% from 76% as of end of last year. Further, the Bank once again manifested its financial strength with a high capital adequacy ratio, which stood at 24.3% for 2015.

FY 2016 Compared to FY 2015

Total resources of the Bank expanded by 18% to Php36.06 billion this year as compared to Php30.67 billion level of previous year. These were mainly attributed to growth in Loans and receivables – net, which increased by 8% to Php22.5 billion from Php20.9 billion in December 2015 level, as corporate loan portfolio posted a robust growth. Meanwhile, Deposit Liabilities registered an increase of 40% to Php26.97 billion from Php19.32 billion in 2015.

For the year ending December 31, 2016, CTBC audited net income softened to Php213 million from Php258 million in 2015. This bottom-line figure is lower than 2015 net income mainly on account of increase in provision for income taxes due to higher corporate income tax at Php121 million vs. Php60 million in 2015. The lower income tax in 2015 were attributed to the utilization of tax credits relating to the excess minimum corporate income tax (MCIT) applied whereas for 2016 the Bank does not have these tax credits. This performance translated to a 3.0% return on equity (ROE) and 0.6% return on assets (ROA).

On the other hand, net income before tax inched up to Php334 million from last year's Php318 million. The higher pretax income was mainly attributed to the increase in revenues which moved up by 6% to Php2.25 billion from Php2.13 billion.

The increase in the Bank's revenue was pushed mainly by higher income from trading of fixed income securities which grew by Php157 million to Php193 million from Php35 million in 2015 as the Bank took advantage of the improving market prices. Net interest income likewise rose by 3%, from Php1.564 billion to Php1.618 billion. The improvement in net interest income was spurred by a 12% increase in average loan balances, which grew by Php2.36 billion. The Bank set aside Php234 million as provisions for impairment and credit losses for the year, this is Php32 million lower than last year's Php266 million provisions.

Non-performing loans (NPL) ratio as of December 31, 2016 improved to 0.70% from 0.84% in December 2015 while NPL coverage is at 98% from 123% as of end of last year. Further, the Bank once again manifested its financial strength with a high capital adequacy ratio, which stood at 22.5% for 2016. This ratio is considerably above industry as well as the regulatory requirement of 10%.

Key Financial Indicators

The following ratios are used to assess the performance of the Bank presented on a comparable basis:

	December 31, 2016	December 31, 2015
Return on Average Equity (ROE)	3.0%	3.8%
Return on Average Assets (ROA)	0.6%	0.9%
Cost-to-Income Ratio	74.7%	72.6%

	December 31, 2016	December 31, 2015
Non-Performing Loan Ratio (NPL)	0.70%	0.84%
Non Performing Loan Cover	98%	123%
Capital Adequacy Ratio	22.5%	24.31%

The manner by which the Bank calculates the above indicators is as follows:

- Return on Average Equity ---- Net Income divided by average total capital funds for the period indicated
- Return on Average Assets ---- Net Income divided by average total resources for the period indicated
- Cost to income ratio --- Total Operating expenses divided by the sum of net interest income plus other income
- Non-Performing Loan Ratio --- Total non-performing loans divided by gross loan portfolio
- Non-Performing Loan Cover --- Total allowance for probable loan losses divided by total non-performing loans
- Capital Adequacy Ratio --- Total capital divided by risk-weighted assets

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2016

Liquidity Ratio

The ratio for the years 2016 and 2015 are as follows:

	2016	2015
Net liquid assets	P12,291,864,487	P6,119,010,095
Total deposits	26,967,086,220	19,323,474,062
Ratio of net liquid assets to total deposits	45.6%	31.7%

Net liquid assets consist of cash, due from BSP, due from banks, interbank loans, securities held for trade and available for sale less derivatives liabilities and interbank borrowings.

Debt to Equity Ratio

The ratio for the years 2016 and 2015 are as follows:

	2016	2015
Total liabilities	P28,934,599,546	P23,780,715,887
Total equity	7,129,153,350	6,892,483,314
Ratio of debt to equity	405.9%	345.0%

Assets to Equity Ratio

The ratio for the years 2016 and 2015 are as follows:

	2016	2015
Total assets	P36,063,752,896	P30,673,199,201
Total equity	7,129,153,350	6,892,483,314
Ratio of total assets to equity	505.9%	445.0%

Interest Rate Coverage Ratio

The ratio for the years 2016 and 2015 are as follows:

	2016	2015
Income before income tax	P334,099,370	P317,703,342
Interest expense	156,633,404	158,713,938
Interest coverage ratio	213.3%	200.2%

Profitability Ratios

The ratio for the years 2016 and 2015 are as follows:

	2016	2015
a.) Net income	P213,047,078	P258,020,128
b.) Average total equity	7,079,072,847	6,826,548,862
Return on average equity (a/b)	3.0%	3.8%
c.) Net income	P213,047,078	P258,020,128
d.) Average total assets	32,840,188,953	30,352,579,470
Return on average assets (c/d)	0.6%	0.9%
e.) Net interest income	1,617,589,511	P1,563,513,499
f.) Average interest earning assets	30,438,256,293	28,783,155,536
Net interest margin on average earning assets (e/f)	5.3%	5.4%

Additional Management Discussion and Analysis (for those with variances of more than 5% December 31, 2016 vs. December 31, 2015)

Balance Sheet –

Due from Bangko Sentral ng Pilipinas went up by 53% from Php3.97 billion to Php6.08 billion due to increase in reserve requirement on account of growth in PHP deposit. Likewise, Due from other banks increased by 29% from Php1.65 billion to Php2.13 billion. Also, Interbank loans receivable rose from Php1.7 billion to Php2.16 billion in December 2016 mainly due to increase in local currency lending this year as compared last year.

Financial assets at FVPL increased to Php567.09 million from Php203.62 million due to increase in the volume of peso held-for-trading (HFT) – treasury notes. Also, Held to Maturity (HTM) investments went up by 78% mainly attributable to higher volume of foreign currency denominated HTM securities by Php265.97million.

Loans and receivables (net) went up by 8% from Php20.9 billion to Php22.5 billion on account of additional corporate loans booked during the period.

Property, Plant, & Equipment (net) increased by 17% from Php123.million to Php144.22 million mainly due to newly purchased assets this year. Likewise, Investment Properties rose to Php93.73 million from Php17.57 million on account of various foreclosures during the year.

Deferred Income Tax (DIT) declined by 8% from Php115.63 million to Php106.18 million due to reversal of DIT-assets for Loan accounts written-off during the period. Other assets went up by 22% mainly on account of on-going renovations, hardware and software items under installation process at year-end.

Deposit Liabilities increased by 40%, due to robust growth across all deposit products. Conversely, Derivative liabilities declined by 30% from Php46.49 million to Php32.59 million last year as a result of the movements in the fair value of derivative products. In addition, bills payable decreased by Php2.75 billion on account of maturities of borrowings this year. Also, Outstanding Acceptances decreased by Php8.5 million due to the lower volume of foreign currency acceptances.

Accrued Interest, Taxes and Other Expenses rose by 16% from Php309.67 million to Php359.7 million due to higher interest payable on high cost deposits at period-end. Accrued Income Tax Payable dropped by Php10.7 million this year, while Other Liabilities increased by 18% mainly due to higher accounts payable, miscellaneous liabilities, and withholding taxes payable.

Income Statement (variance analysis for December 31, 2016 vs. December 31, 2015)

Interest income on trading and investment securities decreased by 27.09% to Php49.11 million from Php67.35 million last year. Likewise, interest income from deposits with other banks decreased from Php19.87 million to Php17.92 million. On the other hand, interest income on interbank loans went up by Php21.56 million due to the increase in average volume of both peso and foreign currency interbank loans receivable.

Interest expenses on deposit liabilities rose by 12.43% owing to the higher average volume of both peso and foreign currency deposits. On the contrary, interest expense on bills payable dropped by Php18.5 million from Php26.4 million to Php7.9 million due to lower average volume of foreign currency borrowings during the period.

Service charges, handling fees and commission income decreased by 12.0% mainly due to lower credit related fees from corporate finance transactions this year. Total trading gains and foreign exchange gains went up by Php109.1 million, 59.3% higher than the same period last year.

Compensation and fringe benefits went up by 6.57% from Php816.8 million to Php870.5 million for the period. Provision for impairment and credit losses totaled Php234 million as of December 31, 2016, or a 12.0% decrease from the Php266 million provision last year.

Various operating expense lines registered relative increases as compared to the same period last year. Occupancy and other equipment-related costs went up by 7.1% from Php184.4 million to Php197.5 million. Security, messengerial, and janitorial expenses increased by Php48.8 million from Php108 million. Amortization of software licenses rose 13% from Php32.1 million to Php36.2 million while miscellaneous expenses also went up by 12.9% from P190 million to Php214.4 million. Depreciation and amortization dropped by 17.9% to Php46.7 million on account of various assets' full amortization this year.

Provision for income taxes went up by Php61.4 million from Php60 million to Php121.1 million. The lower income tax in 2015 were attributed to the utilization of tax credits relating to the excess minimum corporate income tax (MCIT) applied whereas for 2016 the Bank does not have these tax credits

Material Events and Uncertainties:

There are no known trends, demand, commitments, events or uncertainties that will have material impact on the Bank's liquidity. There are also no known material commitments for capital expenditures as of reporting date. There are no known trends, events, uncertainties that had or reasonably expected to have a material favorable or unfavorable impact on income from continuing operations. There are no significant elements of income or loss that arose from the Bank's continuing operations. Likewise there are no seasonal aspects that had material effect on the financial condition or results of operations.

There are no known events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation. Also, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created as of the reporting date.

3. Plan of Operations

With the strong support from our Parent Bank, the Bank aims to further strengthen the new CTBC Bank (Phils.) brand in the Philippines. CTBC Bank (Phils.) overall strategy is to become a Bank for Mid-and-small cap businesses and middle class customers and to be in the league of top tier foreign banks with localized approach in the Philippines. The bank intends to improve market position and profitability by continuous expansion of its retail and corporate loan portfolio. Institutional Banking Group (IBG) aims to grow middle market business while Treasury continues to focus on the expansion of client base revenues both for corporate and retail market. In addition, Retail Banking Group will continue to expand SME market while Mortgage will penetrate primary mortgage market.

Item 7. Financial Statements

The consolidated financial statements and schedules are filed as part of the Form 17-A.

INFORMATION ON INDEPENDENT ACCOUNTANT (EXTERNAL AUDIT FEES (MC No. 14, Series of 2004))

(a) Audit and Audited-Related Fees

The Bank paid the following audit fees to R.G. Manabat & Co (RGM) and for the fiscal year indicated:

Fiscal Year	Amount
RGM	
For 2014 paid in 2014	Php659,736.00
For 2014 paid in 2015	Php775,544.00
For 2015 paid in 2015	Php308,000.00
For 2015 paid in 2016	Php1,188,880.00
For 2016 paid in 2016	Php616,000.00
For 2016 paid in 2017	Php400,400.00

For the calendar years 2016, 2015 and 2014, RGM, the local firm of KPMG International has been appointed as the Bank's external auditor.

To date, RGM has unbilled charges of Php555,324.00 for 2016 audit.

There are no other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the Bank's financial statements other than those described above.

(b) Tax & All Other Fees

There are no fees paid to tax and other related services.

(c) Audit Committee's Approval Policies and Procedures for the above services

The engagement of the services of the Bank's external auditor is evaluated by the Audit Committee. Consistent with the provisions of the Code of Corporate Governance and the Bank's Audit Committee Charter, the appointment of the external auditor is nominated by the Audit Committee for Board Approval and subsequently for the ratification/approval by the shareholders.

The Bank's Audit Committee also evaluates and determines any non-audit service provided to the Bank by the external auditor who is handling the financial audit of the Bank and keeps under review the non-audit fees paid to the external auditor both in relation to their significance to the auditor and in relation to the Bank's total expenditure on consultancy.

The audit committee also reviews and recommends to the Bank's Board of Directors any appropriate action to ensure the external auditor's independence.

A reconciliation of retained earnings available for dividend declaration which shall present the prescribed adjustments as indicated in Annex 68-C

Schedule II of Exhibit 2, the Bank's Audited Financial Statements for the fiscal year ended as of December 31, 2016, shows such reconciliation and the corresponding footnotes. Schedule II is reproduced on the succeeding page. As mentioned earlier, the Bank's retained earnings are currently fully restricted.

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
DECEMBER 31, 2016**

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning ¹		P -
Net income during the year closed to retained earnings	P213,047,078	
Less: Non-actual/ unrealized income net of tax		
Equity in net income of associate/ joint venture	-	
Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents)	82,997,486	
Unrealized actuarial gain	-	
Fair value adjustment (marking to market gains)	123,643	
Provision for deferred tax asset	(9,444,669)	
Fair value adjustment of Investment Property/AR- ICCS resulting in gain	16,110,352	
Adjustment due to deviation from PFRSs/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRSs	4,383,174	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRSs/GAAP - loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Net income actually earned during the year	118,877,092	
Add/Less:		
Dividend declaration during the period	-	
Appropriations of Retained Earnings during the period		
Trust operations	-	
Treasury shares ^{1, 2}	-	
Minimum capital requirements per BSP Circular No. 854, BASEL III requirements, and ICAAP ¹	(118,877,092)	
Reversal of appropriations	-	
Effects of prior period adjustments	-	
Total retained earnings, available for dividend declaration¹, ending		P -

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

For the calendar years 2015 and 2016, RGM, the local firm of KPMG International has been appointed as the Bank's external auditor.

The Bank has no disagreement with any of its external auditors in any matter of accounting principle, practice, or financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer-

1. *Directors*

The following directors shall hold office from date of elections until the next annual shareholders meeting or their resignation unless sooner terminated or removed in accordance with law:

JACK LEE, a.k.a. Lee Wen-Hung, Taiwanese, assumed his post as Chairman of the Board on October 26, 2011. He obtained his Master's in Business Administration from California State University in 1979 and Bachelor of Arts in Economics from Soochow University, Taipei. He is concurrently the Chairman of CTBC Venture Capital Co., Ltd under CTBC Financial Holding Co., Ltd. He was Chairman of CTBC Asset Management Co., Ltd. from 2011 to 2012. Mr. Lee has been with CTBC Bank Co., Ltd. since 1993. He served various positions as the Vice Chairman of CTBC Securities Co. Ltd. from 2005 to 2008, the Executive Vice President and General Auditor of CTBC Bank Co., Ltd. from 2002 to 2005, the Senior Vice President and General Manager of Credit Department and International Department from 1995 to 2002 at the Bank. He is 63 years old.

WILLIAM B. GO, Filipino, has been the Vice Chairman of the Board since October 15, 2001. He also served as concurrent President from April 3, 2008 to January 31, 2009. A Certified Public Accountant, he earned his Bachelor of Science degree from the University of the East and a Master of Science in Business Administration degree from the University of Missouri in the United States. He is Chairman of Investors Securities, Inc. and Gama Enterprises, Inc.; Chairman and President of Big Blue Realty Corporation; and President of Serico, Inc.; and holds various directorship positions in other institutions. He served as the President of Philippine Bank of Communication from 1985 to 1995. Mr. Go has been with the Bank since 1995 as President until October 15, 2001 when he was elected Vice Chairman. He is 77 years old.

STEVE TSAI, a.k.a. Tsai Wen-Hsiung, Taiwanese, obtained his Bachelor's degree in Economics from National Cheng-Chi University and has been awarded multiple postgraduate degrees, including Business Administration in International Trade (National Cheng-Chi University), Information Management (National Taiwan University), and Master of Philosophy in Accounting and Finance (Lancaster University, United Kingdom). He was elected as Board Director and President and CEO of CTBC Bank (Phils.) Corp. on March 1, 2015. His career with CTBC Bank Co. Ltd. (Taiwan) first started in 1996 when he joined as Vice President of Treasury Department. He was given exposures to various roles in Corporate Banking Planning, Product Development, and Corporate Planning from 1996 to 2002. As Senior Vice President, he led the Trust Asset Management Department and Corporate Trust Department from 2003 to 2013. In 2013, Mr. Tsai was appointed as Executive Director of CTBC's Singapore Branch, a role he performed for two years. Prior to joining CTBC Bank, he served as Vice President of JP Morgan Chase from 1989 to 1996, and was a Management Trainee at the Bank of America in 1989. Mr. Tsai is 53 years old.

C.C. HUANG a.k.a. Huang Chih-Chung, Taiwanese, obtained his Masters in Business Administration from Indiana University, Bloomington, U.S.A. and Bachelor of Economics from the National Taiwan University in Taiwan. He is currently Head of Global Institutional Credit Risk Management Division of CTBC Bank Co., Ltd. and Director of Grand Bills Finance Corporation. He was Head of Institutional Banking Taiwan Corporate Banking Division and Head of South East Asia Region Division of CTBC Bank Co., Ltd. from 2010 to 2012. Prior to that, he served as Executive Director of ABN AMRO Bank, Taipei Branch from 1990 to 2010. He was seconded to ABN AMRO Bank Head Officer in Amsterdam from 1996 to 1999. He is 54 years old.

FRANK SHIH a.k.a. Shih Jiing-Fuh, Taiwanese obtained his Masters in Business Administration from the University of Texas in Austin, U.S.A. and Bachelor of Economics from the National Taiwan University in Taiwan. He is concurrently Division Head of South East Asia Region Division, Chief Strategy Officer and Division Head of Global Commercial Product Division of CTBC Bank Co., Ltd. Mr. Shih has been with CTBC Bank Co., Ltd. since 2001. He served various positions in CTBC Bank Co., having been the General Manager of Taipei Regional Center II from 2001 to 2003; General Manager of CTBC Hong Kong branch from 2003 to 2005; Regional Division Head, Institutional Banking from 2005 to 2007; North America Region Division Head from 2009 to 2010; and Symphony Project Director from 2006 to 2012. Prior to that, he served as Vice President of ABN AMRO Bank Taipei Branch in 1992 to 2001. He is 52 years old.

Independent Directors

NG MENG TAM, Filipino, is an Independent Director of the Bank, having been re-elected last October 25, 2007. Being one of the incorporators of Access Banking Corporation, the predecessor of the Bank, he served as Director of the Bank from 1995 to 2001. He holds a Bachelor of Science degree in Physics from the Mapua Institute of Technology. Over the past several years, he has been President of Cinema 2000, Inc., and the President of High Pointe Property, Inc. He is 71 years old.

EDWIN B. VILLANUEVA, Filipino, has been an Independent Director of the Bank since 2002 and is the Chairman of the Audit Committee. He received his Bachelor of Science degree in Management Engineering (cum laude) from Ateneo De Manila University and Master's degree in Business Administration from Wharton School at the University of Pennsylvania. He is the Chairman of VFL Advisors, Inc. and President of ABV Inc., a real estate holding company. He is President of CIBI Foundation Inc. He holds directorships in the Microventures Financing Corp., Makati Supermart Group, Testech Inc., and DFNN Inc., Iwave Inc., and Advisor to the Board of CDC/Quadrillion group, and to the Board of Philratings, Inc. He is 66 years old.

The independent directors have met and continue to meet all the qualifications and possess none of the disqualifications of an Independent Director under the Bank's

Code of Corporate Governance, Section 38 of the Securities Regulation Code and relevant BSP rules.

2. Executive Officers

The following are the Bank's executive officers:

STEVE TSAI, a.k.a. Tsai Wen-Hsiung, Taiwanese, obtained his Bachelor's degree in Economics from National Cheng-Chi University and has been awarded multiple postgraduate degrees, including Business Administration in International Trade (National Cheng-Chi University), Information Management (National Taiwan University), and Master of Philosophy in Accounting and Finance (Lancaster University, United Kingdom). He was elected as Board Director and President and CEO of CTBC Bank (Phils.) Corp. on March 1, 2015. His career with CTBC Bank Co. Ltd. (Taiwan) first started in 1996 when he joined as Vice President of Treasury Department. He was given exposures to various roles in Corporate Banking Planning, Product Development, and Corporate Planning from 1996 to 2002. As Senior Vice President, he led the Trust Asset Management Department and Corporate Trust Department from 2003 to 2013. In 2013, Mr. Tsai was appointed as Executive Director of CTBC's Singapore Branch, a role he performed for two years. Prior to joining CTBC Bank, he served as Vice President of JP Morgan Chase from 1989 to 1996, and was a Management Trainee at the Bank of America in 1989. Mr. Tsai is 53 years old.

ISMAEL R. SANDIG, Filipino, obtained his Bachelor's degree in Commerce Major in Accounting from Far Eastern University. He joined the Bank in September 2014 as Senior Executive Vice President and Head of the Retail Banking Group. He started his career with Insular Bank of Asia and America in 1975 as a Financial and Reconciliation Analyst for the Central Accounting Department and was a Branch Head by the time he left the bank in 1985. In 1986, he moved to Philippine Commercial and Industrial Bank where he was a Branch Head for three years. He then joined Union Bank of the Philippines in 1990 where he was promoted successively from Assistant Vice President to Senior Vice President in the 12 years that followed. He held various positions in Union Bank such as Regional Head, Branch Distribution Head and National Sales Director. After Union Bank, he then transferred to Philippine National Bank in 2002 where he stayed for three years joining initially as a First Senior Vice President/Special Assistant to the Domestic Banking Head and then later on as Executive Vice President of the Retail Banking and Consumer Finance Sectors. He likewise had a brief stint at East West Banking Corporation as a Senior Consultant/Assistant to the President and Chairman of the Board from 2005 to 2006 before joining RCBC in 2007. He joined RCBC in February 2007 as Executive Vice President and Group Head of Retail Banking. Mr. Sandig was formerly Senior Executive Vice President/Consultant of Rizal Commercial Banking Corporation (RCBC). He is 63 years old.

JAMIE WANG, a.k.a. Chu-Min Wang, Taiwanese, holds a Graduate Certificate in Finance and Banking from National Chengchi University in Taiwan. She earned her Business Administration degree from Soochow University, also in Taiwan. Ms. Wang began her current role as Executive Vice President/Chief Risk Officer and Enterprise-Wide Risk Management Group Head of CTBC Bank (Phils.) Corp. on March 01, 2016. She is a seasoned banker with over 25 years of experience obtained from four

different banking institutions. Prior to joining CTBC Bank. Co. Ltd (Taipei) in July 2015, she was with Citibank for a total of 15 years where she had various international assignments in South Africa, Singapore, China, Taiwan and the US. She also had stints with JPMorgan Chase Bank (Taiwan) where she worked for 6 years and with Credit Agricole Corporate and Investment Bank (Hong Kong) where she stayed for 2.5 years. Ms. Wang is 49 years old.

JOSEPH B. ESTAVILLO, Filipino, earned his Business Administration degree, Major in Economics from San Sebastian College. He currently holds the position of Senior Vice President and Head of the Banking Operations Group. He joined CTBC Bank in 2011 as First Vice President and Head of Branch Operations. Prior to joining CTBC Bank, he was Vice President and Operational Risk Management Head of Bank of Commerce. From 2007 to 2010, he was Assistant Vice President and Head of Export and Industry Bank's Operations Division under Audit Group. In 2001, he joined Rizal Commercial Banking Corporation (RCBC) as Head of Operational Risk. From 1994 to 2000, he was with Solidbank Corporation as Senior Manager of its Audit and Credit Examination Group until its acquisition by Metrobank in 2011. Mr. Estavillo is 55 years old.

REMO ROMULO M. GARROVILLO, JR., Filipino, holds an AB Economics degree from Ateneo de Manila University. He started his current role as Senior Vice President and Head of Global Transaction Banking on December 09, 2014. Prior to CTBC Bank, he was Director of Merchant Acquisition of Globe Telecom. He started his banking career at Union Bank of the Philippines in 1999, initially as Customer Service Officer and later on as Cash Solutions Manager. In 2003, he joined Philippine National Bank (PNB) as Assistant Vice President and Head of its e-Business Solutions Division. After his three-year stint with PNB, he moved to East West Banking Corporation in 2006 where he was Head of the Product Development and Marketing Support Division. In 2007, he joined Rizal Commercial Banking Corporation (RCBC) as Assistant Vice President of Channel Management and Product Development. He left RCBC as Senior Vice President and Head of Global Transactions Services. Mr. Garrovillo is 38 years old.

FLORENTINO T. GONZALEZ III, Filipino, obtained his Bachelor of Science in Economics degree from the University of the Philippines (*cum laude*). He earned his Master of Arts in Economics from the same university. Mr. Gonzalez joined the bank in April 06, 2015 as Senior Vice President and Head of Retail Credit Management Group. Prior to joining the bank, he was with Bank of the Philippines Islands, where he handled various functions over the past nine years, including corporate planning, credit policy and consumer credit risk management, particularly for the unsecured loans business. He started his banking career in 1986 as Financial Analyst at the Bank of Tokyo. After a year, he joined the Management Associate Program of the Citytrust Banking Corporation and was assigned to Treasury upon completion of the program. He moved up the corporate ladder of Citytrust and was Assistant Vice President-Consumer Segment Treasury. He further honed his skills in Treasury when he joined Philambank/AIG. In 1999, Mr. Gonzalez joined ABN AMRO Bank Philippines as Vice President of Strategic Planning and Business Development. He also had a two-year stint at ABN AMRO in the United Arab Emirates, another two-year stint at Bank of Asia (ABN AMRO Group) in Thailand and a six-month assignment at ABN AMRO in Egypt. He is 53 years old.

DEOGRACIAS A. JACINTO, Filipino, has a BA Economics degree from University of San Carlos. Mr. Jacinto joined the Bank on 01 October 2014 as Senior Vice President and Head of the Retail Lending Sales Department. He now heads the Consumer Finance Sales Segment, which is responsible for the Bank's SME and Mortgage businesses. Prior to joining CTBC Bank Philippines, he was Senior Vice President and Deputy Group Head of Retail Banking at Bank of Commerce. He started his career with Bank of the Philippine Islands (BPI) in 1981 where he held various positions, including Product Manager, Card Products Marketing and Research Unit Head and Loan Officer in his 16 years with BPI. In 1997, he joined Union Bank of the Philippines as Cash Management Services Group Head. Eventually, he was appointed Regional Head of the bank's Retail Banking Center. After Union Bank, he joined Philippine National Bank in 2004 as First Vice President and Consumer Finance Sector Head. In 2007, he moved to Rizal Commercial Banking Corporation (RCBC) as Senior Vice President and Regional Sales Manager, before being seconded to RCBC Savings Bank from 2009 to 2010. Mr. Jacinto is 63 years old.

OLIVER D. JIMENO, Filipino, holds a Master's and Bachelor's degree in Business Administration from the University of the Philippines. He is Senior Vice President and Head of Treasury Group. Mr. Jimeno has been with the Bank since December 1999, having served as Head of Treasury's Domestic Desk in 1999 and Head of the Liquidity and Balance Sheet Management Desk in 2005, before eventually being appointed as the Bank's Treasurer in 2009. Prior to joining CTBC Bank Philippines, he was a Swap Trader at PCIBank and a Trust Marketing Officer at Citytrust. Mr. Jimeno is 45 years old.

MARIA GRETCHEN S. MACABASCO, Filipino, earned her Bachelor's degree in Business Management from Ateneo de Manila University. She is Senior Vice President and Head of Top Tier Department under Institutional Banking Group. Prior to joining the CTBC Bank in August 2008, she was Senior Vice President and Head of Trade of Australia and New Zealand Bank, Manila Branch. She also served as First Vice President and Structured Products Group Head at Philippine Bank of Communications. She worked almost 6 years at ABN AMRO Philippines, most recently as Vice President and Working Capital Head. Previous to her position with ABN AMRO, she worked for almost 16 years at Citibank N.A. Manila where her last role was Assistant Vice President/Relationship Manager under Global Relationship Banking. Ms. Macabasco is 53 years old.

EDGARDO A.M. MENDOZA, JR., Filipino, earned his Bachelor's degree in Psychology from De La Salle University. He also holds a Master's degree in Business Administration from Ateneo de Manila University. He is Senior Vice President and Head of Human Resource and Administration Group. Prior to joining CTBC Bank in August 2008, he worked in the BPO/call center industry for five years, as General Manager for Human Resources of IBM Daksh Philippines, and as Human Resources Director of iTouchPoint Softech Ltd. He also had a 10-year stint with three other banks—Rizal Commercial Banking Corporation (RCBC), where he was First Vice President and HR Group Head; Philippine Savings Bank (PSBank), where he was First Vice President and HR Group Head; and Solidbank, where he was Vice President and HR Group Head. For more than 10 years, he was a faculty member of both Ateneo de Manila University and De La Salle University Graduate School of Business, where he taught Organizational Behavior. He is 58 years old.

ANDRE P. PAYAWAL, Filipino, holds a BSC Accounting degree from San Beda College and is a Certified Public Accountant. He is a seasoned banker whose combined years of experience in the financial services industry totals 36 years. He started his banking career with Standard Chartered Bank in 1980 initially as a staff employee and by the time he left 15 years later, he was Assistant Vice President/Settlements Manager under the Securities/Custodial Services Department. In 1995, Andre joined CTBC Bank as Assistant Vice President/Financial Control Department Head. In July 2009, he was appointed as Officer-in-Charge of the Finance and Corporate Affairs Group and six months later, was appointed as the full-fledged Group Head/Chief Financial Officer. Mr. Payawal has been with CTBC Bank for 21 years now. He holds the rank of Senior Vice President. He is 59 years old.

JIMMY ARSENIO Y. SAMONTE, Filipino, obtained his Bachelor's degree in Commerce, Major in Accountancy (*cum laude*) from the University of Santo Tomas and is a Certified Public Accountant. Jimmy also attended the Banking Intermediate Industry Training School at the Center for Professional Education of Arthur Andersen and Co. in Illinois, USA. He is Senior Vice President and Head of Internal Audit. He also served as the Bank's Compliance Officer from 2000 to 2001. Prior to joining the Bank, he was Audit Manager of the Financial Services Group of Sycip, Gorres, Velayo & Co. (SGV & Co.), a member firm of Ernst & Young Global Limited. He has been with the Bank since October 1998. Jimmy is 47 years old.

CECILIA E. TABUENA, Filipino, obtained her Bachelor's degree in Commerce Major in Marketing Management and Bachelor's degree in Psychology from De La Salle University. She also holds a Master's degree in Business Administration Major in Finance from Peter F. Drucker Graduate School of Management, Claremont Graduate University in California, USA. Ms Tabuena's extensive banking experience spans 24 years. She is Senior Vice President and Officer-in-Charge of the Bank's Institutional Banking Group. She concurrently heads the Group's Origination and Structuring Department. She has been with CTBC Bank since 2010. Her banking career started with All Asia Capital and Trust Company where she served as Money Market Trader. She then took up a position in The Long Term Credit Bank of Japan as a Corporate Finance Associate when she was based in Los Angeles, California. Following this US assignment, she returned to the Philippines to join the equities business of Citibank, N.A. as Equities Research Analyst before taking several positions and later on becoming the Vice President and Senior Transactor of the bank's Corporate Finance Department. In 2003, she joined the Debt Capital Markets team of Citi's Emerging Markets Sales and Trading prior to being appointed as the Head. In 2008, she joined Security Bank Corporation as First Vice President and Head of Fixed Income Securities Distribution. Ms. Tabuena is 49 years old.

MARVIN I. TIBURCIO, Filipino, obtained his Bachelor of Arts in Management Economics from Ateneo De Manila University. He is currently Head of Middle Market Department of Institutional Banking Group; a role he assumed in April 2008 upon joining CTBC Bank. Mr. Tiburcio joined CTBC Bank in 2008 as Vice President, and in 2010 assumed the role of First Vice President. In 2016, he was appointed as Senior Vice President. Prior to joining CTBC Bank, he served as Assistant Vice President/Corporate Banking Division Head of EastWest Banking Corp., a position he held for five years. While at EastWest, he was exposed to branch banking when he performed the role of Head of Binondo Business Center for three years. Previous

to this position in EastWest, he was a Manager/Credit and Compliance Officer with Philippine Banking Corporation. Mr. Tiburcio is 45 years old.

3. Legal Proceedings

None of the directors and executive officers is personally involved in any material pending legal proceedings in any court or administrative agency of the government.

4. Significant Employee

There is no significant employee who is not an Executive Officer and who is expected to make significant contribution to the business.

5. Family Relationship

No family relationship exists among the Bank's directors and executive officers.

Item 10. Executive Compensation

1. Summary Compensation Table of Executive Officers

<u>Name</u>	IN MILLION PESOS			
	<u>Annual Salary</u>	<u>Bonus</u>	<u>Others</u>	<u>Total</u>
<u>2015</u>				
Executives (5)	38.88	5.52	15.88	60.28
<u>2016</u>				
Executives (5)	38.12	5.22	14.52	57.86
<u>2017</u>				
Executives (5)	40.12	5.22	17.45	62.79
(Estimate)				

In 2016, the Bank paid approximately P57.86 million as a total compensation to the following executive officers:

Steve Tsai	President and CEO
Ismael R. Sandig	Senior Executive Vice-President
Tammy Huang	Executive Vice-President (up to 05 February 2016)
Jamie Wang	Executive Vice-President (as of 01 March 2016)
Cecilia E. Tabuena	Senior Vice-President
Gretchen S. Macabasco	Senior Vice-President

For the year 2017, it is estimated that approximately P62.79 million will be paid to the following executive officers:

Steve Tsai	President and CEO
Ismael R. Sandig	Senior Executive Vice-President
Jamie Wang	Executive Vice-President (incoming)

Cecilia E. Tabuena Senior Vice-President
 Maria Gretchen S. Macabasco Senior Vice-President

2. Compensation of Directors

The aggregate compensation by the Bank to its Directors, excluding the above executives and other officers, amounted to approximately P8.09 million in 2016. Out of this P8.09 million, the amount of P2.60 million was paid as per diem for Board meeting attendance and P2.98 million for Board Committee meeting attendance. For the year 2017, it is estimated that approximately Php8.66 million will be paid to the Directors.

3. Employment Contract

There is no employment contract between bank and the named Executive Officers.

4. Warrants and Options

There are no warrants or options held by Bank's President, the named executive officers and all officers and directors as a group.

5. Standard Agreements

Except for the per diem for attendance in the Board and Committee meetings and the Director's Fee under Sections 9 and 10, Article III of the Bank's By-Laws, as amended, there is no other standard arrangement by which the directors are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed fiscal year and the ensuing year.

6. Other Arrangements

There are no other arrangement, including consultancy contracts pursuant to which any director of the registrant's was compensated, or is to be compensated, directly or indirectly, during the registrant's last completed fiscal year, and the ensuing year, for any service provided as a director.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following is the person or entity known to the Bank as owning more than 5% of the Bank's shares:

Title of Class	Name and address of Record Owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage Held
Common	CTBC Bank Co., Ltd. No. 168 Jingmao 2nd Road, Taipei, Taiwan, R.O.C.	CTBC Bank Co., Ltd.	Taiwanese	246,495,812	99.60%

CTBC Bank Co., Ltd. (CTBC Ltd.) is wholly-owned by CTBC Financial Holding Co., Ltd. (CTBC Holding).

CTBC Ltd. through a resolution of its Board of Directors may authorize the Bank's Chairman, Jack Lee, and such other persons as it may deem fit to exercise the voting power over its shareholdings for and on its behalf.

1. Group Owning More Than 5% of Registrant's Voting Securities

Except for CTBC Ltd., there is no other person or group known to the Bank to be directly or indirectly the record or beneficial owner of more than 5% of any class of registrant's voting securities.

2. Security Ownership of Management as of February 28, 2017

a. Directors

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Jack Lee 13F, No. 3 Sung Shou Rd., Taipei 110, Taiwan, R.O.C.	Jack Lee	Taiwanese	1	0.00
Common	William B. Go 2277 Magnolia St., Dasmariñas Village, Makati City	William B. Go	Filipino	55	0.00
Common	Erh-Chang Wei 2F No. 2017, Sec. 2, Xinhai Rd., Da'an District, Taipei, Taiwan, 106 R.O.C.	Erh-Chang Wei a.k.a. Peter Wei	Taiwanese	1	0.00
Common	C.C. Huang Fl. 12, No. 168, Jingmao 2 nd Rd., Nangang Dist., Taipei City, Taiwan	C.C. Huang	Taiwanese	1	0.00
Common	Frank Shih No. 3 Sung Shou Rd., Taipei City 110, Taiwan, R.O.C.	Frank Shih	Taiwanese	1	0.00
Common	Ng Meng Tam Unit 508, ITC Building, 337 Sen. Gil Puyat Ave. Makati City	Ng Meng Tam	Filipino	1	0.00
Common	Edwin B. Villanueva 6 Cambridge Circle, North Forbes Park, Makati City	Edwin B. Villanueva	Filipino	1	0.00
				61	

b. Executive Officers as of February 28, 2017: None.

c. Directors and Officers

The aggregate shareholding of the directors and executive officers amounted to 61 shares of the Bank's total outstanding shares.

d. Change in Control.

There is no change in control of registrant and no change in control has occurred since the beginning of the last fiscal year.

There are also no arrangements known to the Bank, which may result in a change of control of registrant.

Item 12. Certain Relationships and Related Transactions

The Bank, in its regular course of trade and business, enters into transactions with its Directors, Officers, Stockholders, and Related Interests (DOSRI) involving mainly loans and these are disclosed to the *Bangko Sentral ng Pilipinas* (BSP) in accordance with the Manual of Regulations for Banks.

All transactions of the Bank, whether with DOSRI, related parties or non-related parties, are conducted and entered in the Bank's best interest and on "arm's length basis".

There are no parties that fall outside the definition of "Related Parties" under SFAS/IAS No. 24 with whom the Bank or its related parties have a relationship that enables such parties to negotiate terms and material transactions that may not be available from other more clearly independent parties on an "arm's length basis".

Note 26 page 83 of the Bank's Audited Financial Statements for the fiscal year ended as of December 31, 2016, attached as Exhibit 2 of this Report, discusses the nature of such Related Party Transactions, which discussion is incorporated hereto by reference.

Disclosures required by Annex 68-E of the amended Securities Regulation Code Rule 68 and 68.1 are in Schedules IV to VII of said Audited Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

The Bank has adopted a Manual of Corporate Governance, which is being continually revised to align with the world's best and leading practices on corporate governance and comply with latest regulatory issuances.

Conformably with existing rules and regulations, its Articles of Incorporation and By-Laws, and Manual on Corporate Governance, the Board organized five (5) committees to assist it in governance matters consisting of the following: (1) Executive Committee; (2) Nomination, Remuneration and Governance Committee; (3) Audit Committee; (4) Risk Management Committee; and (5) Trust Committee.

- The Executive Committee is headed by Jack Lee as Chairman, with William B. Go, Tsai Wen-Hsiung and Huang Chih Chung as Members. It is authorized to act on behalf of the full Board as to urgent matters that arise between its regular meetings. The committee shall have the power to direct and transact all business and affairs of the Bank which otherwise may come to the Board except as limited by the Bank's Articles of Incorporation or By-Laws or by applicable law or regulation on decisions on any matter related to mergers and acquisitions of the Bank, to issuance of debts instruments and of share capital of the Bank. It is also authorized to act immediately in order to protect the Bank or its important interests from loss or damage and these acts and decisions shall be reported and ratified at the next board meeting.
- The Nomination, Remuneration and Governance Committee is headed by Ng Meng Tam as Chairman, with Jack Lee, William B. Go, Edwin B. Villanueva, and Frank Shih as Members. The NRGK which also functions as the Bank's "Committee on Corporate Governance" and "Compensation and Remuneration Committee" is responsible for ascertaining that the Board seats, including those of Independent Directors, as well as other positions that necessitate Board appointment, are filled by individuals who meet the required qualifications as set forth in the by-laws of the Bank. It oversees the periodic performance evaluation of the Board, its Committees, and the Bank's Executive Management, as well as conducts an annual self-evaluation of its performance. In its assessment of a director's performance, it considers competence, candor, attendance, preparedness, and participation in meetings. It monitors not only the Board's performance, effectiveness, and observance of corporate governance principles, but also those of the various other committees and the Executive Management of the Bank. Further, it adopts guidelines for directors serving on multiple boards and makes recommendations to the Board on the continuing education of directors, their assignment to Board committees, succession, and remuneration. It also approves the hiring and promotion of the Bank's Group Heads. Likewise, it is also involved in Human Resources matters such as the review and revision of the Performance Management System, Management Succession Plan, Organizational Structure, Headcount Management, Compensation and Benefits Policy, Merit Increase, and Performance Bonus distribution.
- The Audit Committee is headed by Independent Director Edwin B. Villanueva as Chairman, with Frank Shih and Ng Meng Tam as Members. The members of the Audit Committee must possess accounting, auditing, or related financial management expertise and experience. Tasked primarily with assisting the

Board in fulfilling its oversight responsibilities, the Audit Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical, and regulatory requirements. It monitors the Bank's compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is compliant with International Accounting Standards. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners, and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to endorse to the shareholders the appointment of the Bank's external auditors and oversee external audit engagements; review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

- The Risk Management Committee is headed by Huang Chih-Chung as Chairman, with Jack Lee, William B. Go, Tsai Wen-Hsiung, Frank Shih and Ng Meng Tam as Members. Responsible for the development and oversight of the Bank's Risk Management Program, the Risk Management Committee oversees the system of limits to discretionary authority that the Board delegates to management. It is tasked to ensure that the system remains effective, that the limits are observed, and that immediate corrective actions are taken whenever limits are breached. To achieve this, the Committee takes on the critical role of identifying and evaluating the Bank's risk exposures, ensuring that the appropriate risk management strategies and plans are in place and ready to be executed as necessary, and evaluating the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. Hand in hand with the Chief Risk Officer which functions under the auspices of the Committee, it performs oversight functions in managing credit, market, liquidity, and operational risks.
- The Trust Committee is headed by Jack Lee as Chairman, with William B. Go, Tsai Wen-Hsiung, Huang Chih-Chung and the Trust Officer as Members. It reviews and approves the quality and movement of the Bank's trust assets, including the opening and closing of trust, investment management and other fiduciary accounts; the initial review of assets placed under management or safekeeping; the investments, reinvestment and disposition of funds or property; the review and approval of transactions between trust, investment management and/or fiduciary accounts, and of acceptable fixed income, equity and other investment outlets. Further, it reviews trust, investment management and other fiduciary accounts at least once yearly to determine the advisability of retaining or disposing of the trust, investment management or fiduciary assets, and/or whether the account is being managed in accordance with the instrument creating the trust, investment management or other fiduciary relationship. It reports to the Board any changes in regulations, market conditions, and other factors that may affect the trust business.

The Bank is generally in compliance with adopted leading practices on good corporate governance. Taking into account global best practices, the Bank constantly updates its tools for monitoring the performance of the Board and individual Board members, and the process by which it determines whether a director conducts fair business transactions, devotes necessary time and attention to discharge his duties, acts judiciously, exercises independent judgment, has working legal knowledge affecting the Bank, observes confidentiality and ensures soundness, effectiveness and adequacy of the Bank's risk management system and control environment.

The Bank has no knowledge of any instance of non-compliance with its Manual of Corporate Governance by the Board of Directors or its members, nor by the Bank's officers or employees.

The Bank is committed to ensuring that the corporate governance framework supports the equitable treatment of all shareholders, including minority shareholders. All shareholders are entitled to have the opportunity to obtain effective redress for any violation of their rights.

PART V - EXHIBITS AND SCHEDULES

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

Exhibits

The exhibits are incorporated by reference as set forth in the index attached hereto.

Reports on SEC Form 17-C

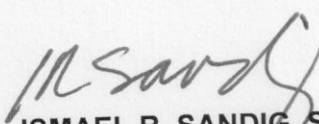
The following reports on SEC Form 17-C were filed during the last six (6) months period covered by this report:

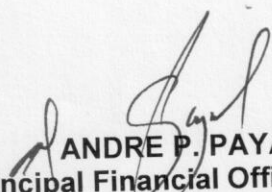
Date Filed	Item
	<i>NONE</i>

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 the City of Taguig 14th day April 2017.

By:


ISMAEL R. SANDIG, SEVP
 Officer in Charge
 Principal Executive Officer
 TIN: 123-097-132


ANDRE P. PAYAWAL, SVP
 Principal Financial Officer, Comptroller &
 Principal Accounting Officer
 TIN: 150-031-779


ATTY. MARITESS PARILLA-ELBINIAS
 FVP/Legal Department Head and
 Assistant Corporate Secretary
 TIN: 135-899-542

The Bank has no Principal Operating Officer.

SUBSCRIBED AND SWORN to before me this 14th day of April 2017 affiants exhibiting to me their Passport/SSS ID Nos., as follows:


NAMES	SSS I.D. NO.	DATE OF ISSUE	PLACE OF ISSUE
Ismael R. Sandig	SSS ID No. 03-2600012-4		
Andre P. Payawal	SSS ID No. 03-4772791-0		
Atty. Maritess P. Elbinias	SSS ID No. 03-8177518-0		

Doc. No. 406;

Page No. 83;

Book No. VI;

Series of 2017.


ATTY. MARY ANGELINE S. TOL
 NOTARY PUBLIC FOR TAGUIG CITY
 UNTIL DECEMBER 31, 2017
 APPT. NO. 5 (2016-2017) / ROLL NO. 51630
 PTR NO. A-3253383 / 01-03-17 / TAGUIG CITY
 IBP NO. 1019561 / 01-15-16 / CAVITE
 MCLE COMPLIANCE NO. V-0007014 / 03-23-15
 16F FORT LEGEND TOWER, 31ST STREET CORNER 3RD
 AVENUE, BONIFACIO GLOBAL CITY, TAGUIG CITY

EXHIBITS AND ANNEXES

- 1. STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**
- 2. AUDITED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016 and 2015**



CTBC BANK
中國信託銀行

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

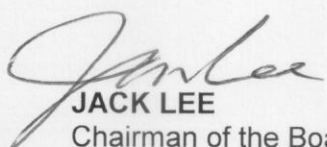
The management of **CTBC BANK (PHILIPPINES) CORP.** (the Bank) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

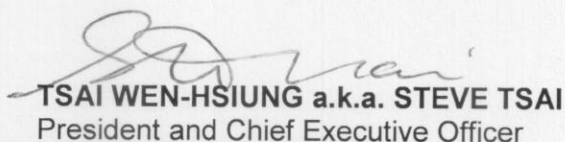
The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

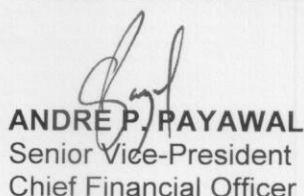
R.G. Manabat & Co., the independent auditor, appointed by the stockholders for the period December 31, 2016 and 2015, respectively, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



JACK LEE
Chairman of the Board



TSAI WEN-HSIUNG a.k.a. STEVE TSAI
President and Chief Executive Officer



ANDRE P. PAYAWAL
Senior Vice-President
Chief Financial Officer

Signed this FEB 22 2017 day of _____ 2017.

FEB 22 2017

SUBSCRIBED AND SWORN to before me this _____ day of _____ 2017
affiants exhibiting to me their Government Issued I.D., as follows:

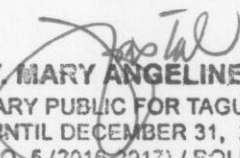
<u>NAMES</u>	<u>GOVERNMENT ISSUED I.D. / TIN</u>	<u>DATE/PLACE OF ISSUE</u>
JACK LEE	Passport# 301759716 TIN 433-750-023	June 29, 2010 / Taiwan
TSAI WEN-HSIUNG a.k.a. STEVE TSAI	Passport# 305332481 TIN 462-868-631	March 12, 2012 / Taipei
ANDRE P. PAYAWAL	SSS ID 03-4772791-0 TIN 150-031-779	

Doc. No. 44 ;

Page No. 10 ;

Book No. VI ;

Series of 2017.


ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DECEMBER 31, 2017
APPT. NO. 5 (2016-2017) / ROLL NO. 51630
PTR NO. A-3253312 / 01-03-17 / TAGUIG CITY
IBP NO. 1019561 / 01-15-16 / CAVITE
MCLE COMPLIANCE NO. V-0007014 / 03-23-15
16F FORT LEGEND TOWER, 31TH STREET CORNER 3RD
AVENUE BONIFACIO GLOBAL CITY, TAGUIG CITY

CTBC BANK (PHILIPPINES) CORPORATION

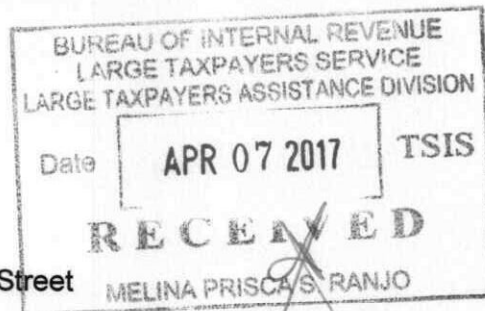
FINANCIAL STATEMENTS
December 31, 2016 and 2015



R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
CTBC Bank (Philippines) Corporation
Fort Legend Towers, Third Avenue corner 31st Street
Bonifacio Global City, Taguig City



Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CTBC Bank (Philippines) Corporation (the "Bank"), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *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.

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 PFRSs, 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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



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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Carmel Lynne M. Balde
CARMEL LYNNE M. BALDE

Partner

CPA License No. 0099677

BSP Accredited, Category A, valid until December 17, 2017

SEC Accreditation No. 1055-AR, Group A, valid until May 20, 2018

Tax Identification No. 205-133-498

BIR Accreditation No. 08-001987-24-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. 5904917MD

Issued January 3, 2017 at Makati City

February 22, 2017

Makati City, Metro Manila



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 Philippines 1226
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 Internet www.kpmg.com.ph
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**REPORT OF INDEPENDENT AUDITORS
 TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE
 BUREAU OF INTERNAL REVENUE**

The Board of Directors and Stockholders
 CTBC Bank (Philippines) Corporation
 Fort Legend Towers, Third Avenue corner 31st Street
 Bonifacio Global City, Taguig City

We have audited the accompanying financial statements of CTBC Bank (Philippines) Corporation (the "Bank") as at and for the year ended December 31, 2016, on which we have rendered our report dated February 22, 2017.

In compliance with Revenue Regulation V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the officers of the Bank.

R.G. MANABAT & CO.

Carmel Lynne M. Balde
 CARMEL LYNNE M. BALDE

Partner

CPA License No. 0099377

BSP Accredited, Category A, valid until December 17, 2017

SEC Accreditation No. 1055-AR, Group A, valid until May 20, 2018

Tax Identification No. 205-133-498

BIR Accreditation No. 08-001987-24-2016

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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE
SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders
CTBC Bank (Philippines) Corporation
Fort Legend Towers, Third Avenue corner 31st Street
Bonifacio Global City, Taguig City

We have audited the accompanying financial statements of CTBC Bank (Philippines) Corporation (the "Bank") as at and for the year ended December 31, 2016, on which we have rendered our report dated February 22, 2017.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Bank has seventy-four (74) stockholders owning one hundred (100) or more shares each.

R.G. MANABAT & CO.

Carmel Lynne M. Balde
CARMEL LYNNE M. BALDE

Partner

CPA License No. 0099677

BSP Accredited, Category A, valid until December 17, 2017

SEC Accreditation No. 1055-AR, Group A, valid until May 20, 2018

Tax Identification No. 205-133-498

BIR Accreditation No. 08-001987-24-2016

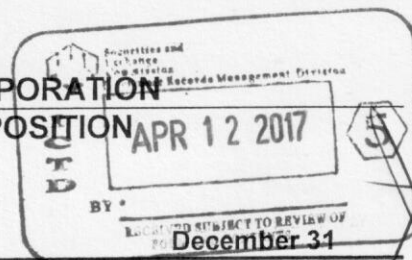
Issued October 18, 2016; valid until October 17, 2019

PTR No. 5904917MD

Issued January 3, 2017 at Makati City

February 22, 2017
Makati City, Metro Manila

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF FINANCIAL POSITION



	Note	2016	2015
ASSETS			
Cash and Other Cash Items	17	P428,066,149	P422,896,718
Due from Bangko Sentral ng Pilipinas	13, 17	6,078,965,189	3,971,812,074
Due from Other Banks	17, 26	2,129,327,639	1,653,114,081
Interbank Loans Receivable	17	2,157,291,749	1,719,375,675
Financial Assets at Fair Value through Profit or Loss	7, 17, 27	567,093,085	203,616,861
Available-for-Sale Investments	7, 17	963,713,443	943,845,878
Held-to-Maturity Investments	7, 17	530,419,396	298,657,799
Loans and Receivables - net	8, 12, 17, 26	22,495,404,841	20,900,152,232
Property and Equipment - net	9, 17	144,217,947	123,447,463
Investment Properties - net	10, 17	93,728,683	17,570,194
Deferred Tax Assets - net	17, 21	106,183,931	115,628,599
Other Assets	11, 17	369,340,844	303,081,627
		P36,063,752,896	P30,673,199,201

LIABILITIES AND EQUITY

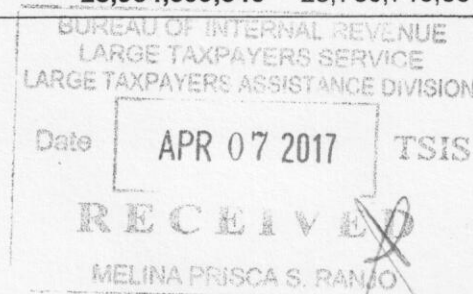
LIABILITIES

Deposit Liabilities

	13, 17		
Demand		P7,721,529,036	P6,477,612,793
Savings		5,841,157,648	4,343,820,023
Time		13,404,399,536	8,502,041,246
		26,967,086,220	19,323,474,062

Derivative Liabilities	17, 27	32,592,767	46,490,152
Bills Payable	14, 17	-	2,749,161,040
Outstanding Acceptances	17	10,584,111	19,103,220
Manager's Checks	17	52,176,964	38,368,497
Accrued Interest, Taxes and Other Expenses	15, 17	359,703,760	309,668,404
Income Tax Payable	17, 21	-	10,738,219
Other Liabilities	16, 17	1,512,455,724	1,283,712,293
		28,934,599,546	23,780,715,887

Forward



December 31			
	Note	2016	2015
EQUITY			
Capital Stock	18	P2,479,687,310	P2,479,687,310
Treasury Stock	18	(15,951,674)	(15,951,674)
Additional Paid-in Capital	18	53,513,675	53,513,675
Restricted Retained Earnings	18	4,592,458,065	4,379,410,987
Statutory Reserve	23	4,981,159	4,981,159
Cumulative Translation Adjustments		29,882,305	12,727,932
Net Unrealized Loss on Available-for-Sale Investments	7	(28,926,484)	(23,814,176)
Net Unrealized Gain on Retirement Obligation	19	13,508,994	1,928,101
		7,129,153,350	6,892,483,314
		P36,063,752,896	P30,673,199,201

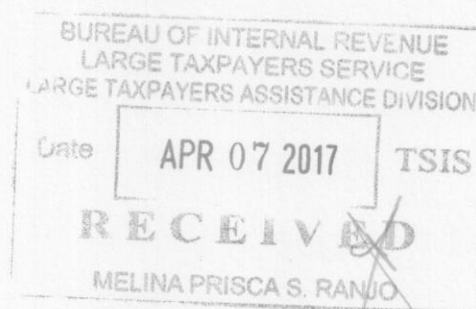
See Notes to the Financial Statements.



CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF INCOME

Years Ended December 31			
	Note	2016	2015
INTEREST INCOME			
Loans and receivables	8, 26	P1,672,036,923	P1,621,400,546
Trading and investment securities	7	49,105,588	67,349,399
Interbank loans receivable		35,163,639	13,607,674
Deposits with Bangko Sentral ng Pilipinas and other banks		17,916,765	19,869,818
		1,774,222,915	1,722,227,437
INTEREST EXPENSE			
Deposit liabilities	13	148,765,493	132,321,527
Bills payable and other borrowings	14, 26	7,867,911	26,392,411
		156,633,404	158,713,938
NET INTEREST INCOME		1,617,589,511	1,563,513,499
Service fees and commission income	22	233,103,873	265,049,312
Trading and securities gain - net	7	192,869,172	35,492,851
Foreign exchange gain - net	7	100,224,908	148,529,299
Miscellaneous - net	22	104,596,132	114,171,174
TOTAL OPERATING INCOME		2,248,383,596	2,126,756,135
Compensation and fringe benefits	19, 26	870,532,300	816,848,546
Provision for credit losses	12	234,025,781	265,970,670
Occupancy and other equipment-related costs	20	197,476,064	184,413,221
Taxes and licenses	21, 29	158,088,667	154,901,016
Security, messengerial and janitorial expenses		156,810,513	107,968,469
Depreciation and amortization	9, 10	46,709,584	56,882,249
Amortization of computer software costs	11	36,243,178	32,079,888
Miscellaneous	22	214,398,139	189,988,734
TOTAL OPERATING EXPENSES		1,914,284,226	1,809,052,793
INCOME BEFORE INCOME TAX		334,099,370	317,703,342
PROVISION FOR INCOME TAX	21	121,052,292	59,683,214
NET INCOME		P213,047,078	P258,020,128
BASIC/DILUTED EARNINGS PER SHARE	28	P0.86	P1.04

See Notes to the Financial Statements.



CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	2016	2015
NET INCOME FOR THE YEAR		P213,047,078	P258,020,128
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR			
Items that may not be reclassified to profit or loss			
Net unrealized gain (loss) on retirement obligation	19	11,580,893	(9,047,278)
Items that may be reclassified to profit or loss			
Net unrealized loss on available-for-sale investments	7	(5,112,308)	(17,855,211)
Cumulative translation adjustments		17,154,373	13,589,402
		12,042,065	(4,265,809)
		23,622,958	(13,313,087)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		P236,670,036	P244,707,041

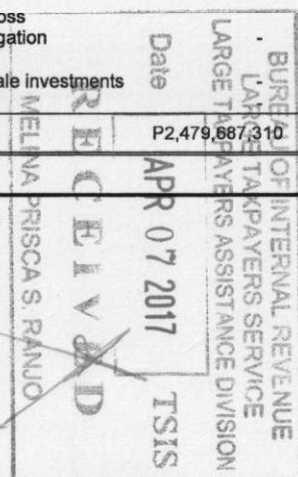
See Notes to the Financial Statements.



CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (see Note 18)	Treasury Stock (see Note 18)	Additional Paid-in Capital (see Note 18)	Restricted Retained Earnings (see Note 18)	Statutory Reserve (see Note 23)	Cumulative Translation Adjustments	Net Unrealized Gain (Loss) on Available-for- Sale Investments (see Note 7)	Net Unrealized Gain (Loss) on Retirement Obligation (see Note 19)	Total
Balance at January 1, 2016	P2,479,687,310	(P15,951,674)	P53,513,675	P4,379,410,987	P4,981,159	P12,727,932	(P23,814,176)	P1,928,101	P6,892,483,314
Net income for the year	-	-	-	213,047,078	-	-	-	-	213,047,078
Other Comprehensive Income for the Year									
Items that may not be reclassified to profit or loss									
- Net unrealized gain (loss) on retirement obligation	-	-	-	-	-	-	-	11,580,893	11,580,893
Items that may be reclassified to profit or loss									
- Net unrealized gain (loss) on available-for-sale investments	-	-	-	-	-	-	(5,112,308)	-	(5,112,308)
Cumulative translation adjustments	-	-	-	-	-	17,154,373	-	-	17,154,373
Balance at December 31, 2016	P2,479,687,310	(P15,951,674)	P53,513,675	P4,592,458,065	P4,981,159	P29,882,305	(P28,926,484)	P13,508,994	P7,129,153,350
Balance at January 1, 2015	P2,479,687,310	(P15,951,674)	P53,513,675	P4,121,390,859	P4,981,159	(P861,470)	(P5,958,965)	P10,975,379	P6,647,776,273
Net income for the year	-	-	-	258,020,128	-	-	-	-	258,020,128
Other Comprehensive Income for the Year									
Items that may not be reclassified to profit or loss									
- Net unrealized gain (loss) on retirement obligation	-	-	-	-	-	-	-	(9,047,278)	(9,047,278)
Items that may be reclassified to profit or loss									
- Net unrealized gain (loss) on available-for-sale investments	-	-	-	-	-	-	(17,855,211)	-	(17,855,211)
Cumulative translation adjustments	-	-	-	-	-	13,589,402	-	-	13,589,402
Balance at December 31, 2015	P2,479,687,310	(P15,951,674)	P53,513,675	P4,379,410,987	P4,981,159	P12,727,932	(P23,814,176)	P1,928,101	P6,892,483,314

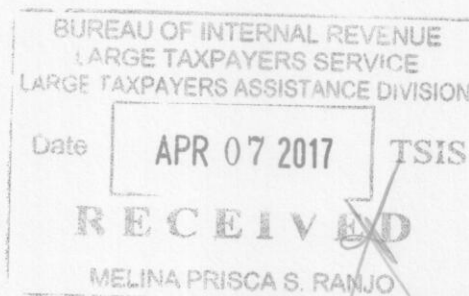
See Notes to the Financial Statements.



CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF CASH FLOWS

Years Ended December 31			
	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P334,099,370	P317,703,342
Adjustments for:			
Provision for credit losses	12	234,025,781	265,970,670
Foreign exchange revaluation loss on bills payable		163,185,971	4,680,000
Depreciation and amortization	9, 10	46,709,584	56,882,249
Amortization of computer software costs	11	36,243,178	32,079,888
Retirement expense charged to profit or loss	19	22,696,434	17,198,156
Amortization of net discount on available-for-sale (AFS) and held-to-maturity (HTM) investments		18,498,097	17,921,394
Dividend income	22	4,840,230	(631,000)
Loss on disposal of computer software		410,665	-
Amortization of deferred charges		237,753	237,753
Loss on disposal of investment property		127,189	-
Mark-to-market loss (gain) on trading securities	7	123,643	(13,522,215)
Reversal of allowance for impairment loss on investment property	10	(79,464)	(79,464)
Gain on disposal of property and equipment		(198,515)	(312,990)
Contribution to the retirement plan	19	(22,696,434)	(23,838,604)
Foreign exchange revaluation gain on trading and investment securities		(30,725,627)	(12,150,598)
Realized gain on sale of AFS and HTM		(41,776,805)	(13,579,081)
Changes in operating assets and liabilities:			
Decrease (increase) in amounts of:			
Financial assets at fair value through profit or loss		(363,599,867)	1,070,574,526
Loans and receivables		(1,842,664,344)	(2,754,545,450)
Other assets		(84,396,276)	(76,198,334)
Increase (decrease) in amounts of:			
Deposit liabilities		7,643,612,158	312,084,649
Outstanding acceptances		(8,519,109)	(215,702,974)
Manager's checks		13,808,467	(26,651,682)
Accrued interest, taxes and other expenses		50,035,356	30,984,890
Derivative liabilities		(13,897,385)	14,357,446
Other liabilities		228,743,431	191,312,902
Net cash generated from (used in) operations		6,388,843,481	(805,224,527)
Income taxes paid		(122,345,843)	(27,014,691)
Net cash provided by (used in) operating activities		6,266,497,638	(832,239,218)

Forward



Years Ended December 31			
	Note	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
AFS investments		(P1,093,840,000)	(P884,606,600)
HTM investments		(266,600,000)	(46,000,000)
Property and equipment	9	(69,484,324)	(51,586,254)
Investment property		(66,068,148)	-
Computer software costs	11	(6,173,645)	(48,733,389)
Proceeds from disposals of:			
AFS investments		1,090,115,031	556,953,435
Property and equipment		3,926,266	3,073,441
Investment property		1,524,393	-
Proceeds from maturity of AFS and HTM investments		84,742,207	56,928,895
Dividends received	22	(4,840,230)	631,000
Net cash used in investing activities		(326,698,450)	(413,339,472)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable		38,349,790,416	26,338,265,898
Settlement of bills payable		(41,262,137,426)	(23,683,224,858)
Net cash (used in) provided by financing activities		(2,912,347,010)	2,655,041,040
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,026,452,178	1,409,462,350
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		422,896,718	420,542,244
Due from Bangko Sentral ng Pilipinas		3,971,812,074	3,963,137,228
Due from other banks		1,653,114,081	1,660,285,867
Interbank loans receivable		1,719,375,675	313,770,859
		7,767,198,548	6,357,736,198
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		428,066,149	422,896,718
Due from Bangko Sentral ng Pilipinas		6,078,965,189	3,971,812,074
Due from other banks		2,129,327,639	1,653,114,081
Interbank loans receivable		2,157,291,749	1,719,375,675
		P10,793,650,726	P7,767,198,548
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		P1,797,347,381	P1,734,283,614
Interest paid		(122,345,843)	(154,876,755)
		P1,675,001,538	P1,579,406,859

See Notes to the Financial Statements.

CTBC BANK (PHILIPPINES) CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date

APR 07 2017

TSIS

1. Organization

CTBC Bank (Philippines) Corporation (the "Bank") is a 99.6%-owned entity of CTBC Bank Co. Ltd., formerly Chinatrust Commercial Bank Ltd. ("Parent Bank"), a Taiwan-based commercial bank. The ultimate parent of the Bank is CTBC Financial Holding Co., Limited (formerly Chinatrust Financial Holding Co., Ltd.) which was incorporated in Taiwan. The Bank was incorporated as a domestic commercial bank on September 7, 1995 under the name of Access Banking Corporation and started business operations on September 26, 1995. It was renamed as Chinatrust (Philippines) Commercial Bank Corporation in January 1996. On October 30, 2013, the Bank changed its corporate name to CTBC Bank (Philippines) Corporation.

The Bank was organized to provide commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, and trust services. In addition, the Bank is licensed to engage in regular financial derivatives as a means of reducing and managing the Bank's and its customers' foreign exchange exposure.

The Bank's principal place of business is located at Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City.

The Bank's common shares were listed in the Philippines Stock Exchange (PSE) in June 1999. On October 7, 2011, the Board of Directors (BOD) authorized the Bank to file a petition for voluntary delisting with the PSE and to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE and Philippine Securities and Exchange Commission (SEC). On December 15, 2011, the Bank obtained approval for the delisting and share buyback through a special stockholders' meeting as required by the Bank's By-Laws. On December 19, 2011, the Bank received the approval of the Monetary Board for the delisting and share buyback. As of January 27, 2012, common shares held by minority stockholders amounting to P12.7 million were tendered to and reacquired by the Bank. On February 8, 2012, the PSE approved the Bank's petition for voluntary delisting. Official delisting of the Bank's shares from the Trading Board became effective on February 24, 2012.

2. Basis of Preparation and Statement of Compliance

Statement of Compliance

The accompanying financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC) consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations.

Basis of Measurement

The financial statements have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVPL) and AFS investments which are measured at fair value.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and the Foreign Currency Deposit Unit (FCDU). These financial statements are the combined financial information of these units after eliminating inter-unit accounts.

Functional and Presentation Currency

These financial statements are presented in Philippine Peso, both the functional and presentation currency of the Bank. The functional currency of RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine Peso (see Note 3 on foreign currency translation). All financial information presented in Philippine Peso has been rounded off to the nearest peso, except otherwise indicated.

Approval of Issuance of Financial Statements

These financial statements of the Bank were authorized for issue by the BOD of the Bank on February 22, 2017.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Bank has adopted the following amendments to standards starting January 1, 2016 and, accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Bank's financial statements.

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38).* The amendments to PAS 38, *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated,' or when the intangible asset is expressed as a measure of revenue.

The amendments to PAS 16, *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices.

- *Annual Improvements to PFRSs 2012 - 2014 Cycle*. This cycle of improvements contains amendments to four standards, none of which to have significant impact on the Bank's financial statements.

- *Changes in method for disposal (Amendment to PFRS 5)*. PFRS 5 is amended to clarify that:

- if an entity changes the method of disposal of an asset (or disposal group) - i.e., reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag - then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognizes any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and
- if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

- *'Continuing involvement' for servicing contracts (Amendment to PFRS 7)*. PFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g., if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement.'
- *Offsetting disclosures in condensed interim financial statements (Amendment to PFRS 7)*. PFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of PAS 34, *Interim Financial Reporting* require their inclusion.
- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1.

The amendments clarify that:

- Information should not be obscured by aggregating or by providing immaterial information.
- Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

- The list of line items to be presented in the statement of financial position and statements of income and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

Foreign Currency Transactions and Translation

Transactions in foreign currencies are initially recorded at the functional rate of exchange at the date of transaction.

Foreign currency-denominated monetary assets and liabilities in the RBU and FCDU are translated into their respective functional currencies based on the Philippine Dealing System (PDS) closing rate prevailing as at the reporting date and PDS closing rate prevailing on the date of the transaction for income and expenses. Foreign exchange differences arising from foreign currency transactions and restatements of foreign currency-denominated assets and liabilities are credited to or charged against the statements of income in the period in which the rates change.

Foreign currency-denominated non-monetary items that are measured at historical cost are translated using the exchange rate at the transaction date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As at the reporting date, the assets and liabilities of the FCDU of the Bank are translated from its functional currency into its equivalent in Philippine Peso, the presentation currency, at PDS closing rate prevailing at the reporting date. The income and expenses are translated using the exchange rates as at the date of the transaction. Foreign exchange differences arising from translation of the FCDU balances to the presentation currency are taken directly to the statements of comprehensive income under "Cumulative translation adjustments." Upon remittance of the FCDU's net income to the RBU, the deferred cumulative translation adjustments is derecognized in the statements of comprehensive income and is recognized in the statements of income.

Financial Instruments

Recognition

The Bank recognizes a financial asset or a financial liability on the trade date when it becomes a party to the contractual provisions of the financial instrument. Purchases or sales of financial assets that require delivery of asset within the time frame established by regulation or convention in the marketplace are recognized on the trade date. Deposits, amounts due to and from BSP and other banks and loans and receivables are recognized when cash is received by the Bank or advanced to the customers.

Initial Recognition of Financial Instruments

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, AFS investments, HTM investments, and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or the liabilities were incurred and whether they are quoted in an active market, and for HTM investments, the ability and intention to hold the investment until maturity. Management determines the category of its financial instruments at initial recognition and where allowed and appropriate, re-evaluates such designation at every reporting date.

Reclassification of Financial Assets

A financial asset at FVPL is reclassified out of the FVPL category when the following conditions are met:

- The financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- There is a rare circumstance affecting the assumptions made by the Bank in classifying the financial asset as part of FVPL.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss previously recognized in the statements of income is not reversed. The value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Reclassification is at the election of management and is determined on an instrument per instrument basis. The Bank does not reclassify any financial instrument into the FVPL category after initial recognition.

Determination of Fair Value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Financial Assets and Financial Liabilities at FVPL

This category includes financial assets and liabilities held-for-trading and derivative financial instruments recorded at FVPL.

a. Financial Assets and Financial Liabilities Held-for-Trading

Financial assets and financial liabilities held-for-trading are recorded in the statements of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in "Trading and securities gain - net" in the statements of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in "Miscellaneous-net" in the statements of income when the right to receive payment has been established.

Included in this classification are debt securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

b. Derivative Financial Instruments Classified at FVPL

The Bank is counterparty to derivative contracts, such as foreign exchange contracts and cross currency swaps. These derivatives are entered into as a service to customers, as a means of reducing or managing their respective foreign exchange exposures and for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting cash flow hedges and hedges in net investment in foreign operation) are taken directly to "Foreign exchange gain (loss) - net" in the statements of income. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

The method of recognizing fair value gains and losses depends on whether derivatives are held-for-trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. When derivatives are designated as hedges, the Bank classifies them as either: (a) hedges of the change in fair value of recognized assets or liabilities or firm commitments ('fair value hedges'); (b) hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction ('cash flow hedges'); or (c) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

In 2016 and 2015, the Bank did not apply hedge accounting treatment for any of its derivative transactions.

AFS Investments

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

After initial measurement, AFS investments are subsequently measured at fair value. Unrealized gains and losses arising from the fair valuation of AFS investments are recognized, net of tax, under "Net unrealized gain (loss) on available-for-sale investments" in the statements of comprehensive income. For AFS debt securities, impact of translation on foreign currency-denominated securities is reported in the statements of income. For AFS equity securities considered as non-monetary items, impact of translation on foreign currency-denominated securities is included in unrealized gains and losses taken in other comprehensive income.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost.

When the securities are sold or disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as "Trading and securities gain - net" in the statements of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS debt instruments are reported as "Interest income on trading and investment securities" using the effective interest rate (EIR) method. Dividends earned from AFS equity investments are recognized in "Miscellaneous - net" in the statements of income when the right of payment has been established. The losses arising from impairment of AFS investments are recognized as "Provisions for credit losses" in the statements of income.

HTM Investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale. After initial measurement, HTM investments are subsequently measured at amortized cost using the EIR method, less impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in "Interest income on trading and investment securities" in the statements of income. The losses arising from impairment of such investments are recognized in the statements of income. The effects of translation of foreign currency-denominated HTM investments are recognized in the statements of income.

Where the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments and the Bank will be precluded from using the HTM investments account for the current period and for the next two succeeding periods from tainting date.

Loans and Receivables

The Bank's loans and receivables include cash equivalents, due from BSP, due from other banks, interbank loans receivable and loans and receivables. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or designated as AFS investments.

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

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ("repos") are not derecognized from the statements of financial position. The corresponding cash received, including accrued interest, is recognized on the statements of financial position as a liability, reflecting the economic substance of the transaction.

Conversely, securities purchased under agreements to resell at a specified future date ("reverse repos") are not recognized on the statements of financial position. The corresponding cash paid, including accrued interest, is considered as a receivable from counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

Other Financial Liabilities

The Bank's other financial liabilities include deposit liabilities, bills payable, outstanding acceptances, manager's checks, accrued interest, taxes and other expenses, and other liabilities, except for liabilities relating to taxes and other non-financial liabilities.

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

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

Derecognition of Financial Instruments

Financial Asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another liability from the same lender on substantially different terms (or the terms of an existing liability are substantially modified), the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference is recognized in the statements of income.

Offsetting

Financial assets and financial liabilities are offset and are reported at net amount in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, where the related assets and liabilities are presented at gross amounts in the statements of financial position.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

Impairment of Financial Assets

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

AFS Investments

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

In case of equity investments classified as AFS investments, objective evidence would include a significant or prolonged decline in the fair value of the investments below their cost. The determination of what is significant and prolonged is subject to judgment. When there is an evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statements of income, is removed from equity and recognized in the statements of income. Impairment losses on equity investments are not reversed through the statements of income. Increases in fair value after impairment are recognized directly in the statements of comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income on trading and investment securities" in the statements of income. If, in the subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statements of income, the impairment loss is reversed through the statements of income.

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collaterals, whether or not foreclosure is probable.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statements of income. If, in the subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Financial assets at amortized cost, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral has been realized. If a future write-off is later recovered, any amounts formerly charged are credited to the "Provision for credit losses" account in the statements of income. Interest income on amortization continues to be recognized based on the original EIR of the financial asset.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the assets are grouped on the basis of similar credit risk characteristics and are collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for the group of financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Financial Assets Carried at Cost

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

Restructured Loans

These involve extending the payment arrangements and agreement on new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loans' original EIR.

The difference between the recorded value of the original loan and the present value of the restructured cash flows discounted at the original EIR, is recognized in "Provision for credit losses" in the statements of income.

Debt Issue Cost

Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance cost is included in the related carrying value of the debt instruments in the statements of financial position.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP, and due from other banks and interbank loans receivable that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Cash and cash equivalents are carried at amortized cost in the statements of financial position.

Property and Equipment

Depreciable properties which includes furniture, fixtures and equipment, leasehold rights and improvements, bank premises (i.e. a condominium unit), computer and transportation equipment are stated at cost less accumulated depreciation and amortization and accumulated impairment loss, if any. The initial costs of property and equipment consists of purchase price, including import duties, taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of the equipment when the cost is incurred and if the recognition criteria are met, but excludes repairs and maintenance cost. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the term of the lease and the estimated useful lives of the improvements.

The range of estimated useful lives of the depreciable assets follows:

	Number of Years
Bank premises	30
Transportation equipment	5
Furniture, fixtures and equipment	5
Computer equipment	3
Leasehold rights and improvements	3 - 5 or the term of the lease, whichever is shorter

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statements of income in the reporting period the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of the asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under "Investment properties" from foreclosure date. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment loss, if any.

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

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

Depreciation is calculated on a straight-line basis over the estimated remaining useful life from the time of acquisition of the investment properties. The estimated useful lives of the Bank's investment properties range from 10 to 40 years. The period and method of depreciation are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of income in the year of retirement or disposal.

Computer Software Costs

Computer software costs (included under "Other assets" in the statements of financial position) are costs incurred relative to the development of the Bank's software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Costs are amortized on a straight-line basis over five to eight years and are included under "Amortization of computer software costs" in the statements of income.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Nonfinancial Assets

Property and Equipment, Investment Properties, and Computer Software Costs

At each reporting date, the Bank assesses whether there is any indication that its property and equipment, investment properties and computer software costs is impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of a non-financial asset's fair value less costs to sell and its value in use and is determined for an individual non-financial asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of a non-financial asset exceeds its recoverable amount, the non-financial asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged to profit or loss in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income. After such a reversal, any depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in "Other liabilities" in the statements of financial position at fair value. Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization of the fee recognized over the term of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statements of income in "Provision for credit losses." Any financial guarantee liability remaining is recognized in the statements of income in "Service fees and commission income," when the guarantee is discharged, cancelled or expires.

Revenue Recognition

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

Interest Income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVPL and AFS investments, interest income is recorded at the EIR which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (i.e., prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income in the statements of income.

When the recorded value of a financial asset or a group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service Fees and Commission Income

The Bank earns fee and commission income from the diverse range of services it provides to its customers. Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance, such as corporate finance fees, and loan syndication fees are recognized in the statements of income as the related services are performed. Service charges and penalties relating to loan receivable and deposit transactions are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Dividends

Dividend income on AFS equity investments is recognized when the Bank's right to receive payment is established.

Trading and Securities Gain - net

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL and realized gains or losses on disposals of financial instruments at FVPL and AFS investments.

Other Income

Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized when the risks and rewards of ownership of the property are transferred, the amount of revenue can be estimated reliably and the collectability is reasonably assured.

Expense Recognition

Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Bank as Lessee

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

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present or legal constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

Retirement Benefits

The Bank's personnel are covered by a funded noncontributory defined benefit retirement plan.

The Bank's net obligation in respect of the defined benefit plans is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in the statements of comprehensive income. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Current service cost and other income and expenses related to defined benefit plans are recognized in the statements of income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the statements of income.

The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Income Taxes

Income tax comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statements of income, except to the extent that it relates to items recognized directly in equity. Tax on these items is recognized in the statements of comprehensive income.

Current Income Tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates and laws that have been enacted or substantively enacted at the statements of financial position date, together with adjustments to tax payable in respect of prior years.

Deferred Taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carry-forward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO) to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

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

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

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance such as underwriting, accounting and legal fees, printing costs and taxes are charged to "Additional paid-in capital" account. If the additional paid-in capital is not sufficient, the excess is charged against the "Retained earnings" account.

When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

Retained earnings represent accumulated earnings of the Bank less dividends declared, if any.

Earnings per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Bank does not have any dilutive-potential common stock.

Dividends on Capital Stocks

Dividends on capital stocks are recognized as a liability and deducted from retained earnings when declared and approved by the shareholders of the Bank. Dividends for the year that are approved after the statements of financial position date are dealt with as an event after the reporting date.

Treasury Stock

These are own equity instruments that are reacquired which are recognized at cost and deducted from equity. No gain or loss is recognized in the statements of income on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury stocks are nullified for the Bank and no dividends are allocated to them.

Events after the Reporting Date

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

Segment Reporting

The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 24. The Bank's revenue producing assets are only located in the Philippines, thus, geographical segment information is no longer presented.

Operating segment results that are reported to the Bank's Chief Executive Officer, being the chief operating decision maker, include items directly attributable to a segment as well as those that can be allocated in a reasonable manner. Unallocated items comprise mainly of corporate assets, head office expenses, and tax assets and liabilities that cannot be allocated to business segments on a reasonable basis.

Fiduciary Activities

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

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these financial statements. Based on management's assessment, unless otherwise stated, none of these is expected to have a significant effect on the Bank's financial statements.

To be Adopted on January 1, 2017

- *Disclosure initiative (Amendments to PAS 7).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes – e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12).* The amendments clarify that:
 - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
 - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;

- the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
- an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

To be Adopted on January 1, 2018

- PFRS 9, *Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Bank did not early adopt PFRS 9 as of December 31, 2016, consistent with the Parent Bank's initiative to adopt IFRS 9 on its scheduled mandatory effective date.

PFRS 9 will primarily affect the Bank's financial assets at FVPL that are held for trading and investment securities classified as AFS investments and HTM investments. Upon adoption of PFRS 9, these financial assets will be reclassified according to the Bank's business models in managing its financial statements and contractual cash flow characteristics.

The Bank has decided not to conduct a formal and detailed impact evaluation of PFRS 9 as of December 31, 2016 due to the following:

- the Bank believes that it would be more cost-efficient, beneficial and relevant to conduct a more detailed impact evaluation at least one (1) year before the Bank's mandatory adoption of PFRS 9; and
- the Bank intends to align adoption of PFRS 9 with the Parent Bank's timetable and requirements, including the performance of trial calculations during the year 2017.

The Bank will continue to monitor developments and updates to PFRS 9 in relation to the mandatory effective date.

- PFRS 15 *Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- *Transfers of Investment Property (Amendments to PAS 40)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e., an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- *Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration*. The amendments clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

To be Adopted on January 1, 2019

- *PFRS 16 Leases* supersedes *PAS 17 Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 Revenue from Contracts with Customers at or before the date of initial application of PFRS 16.

4. Significant Accounting Judgments and Estimates

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

The most significant areas where judgments and estimates have been made are set out below:

Judgments

Going Concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue its business in the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Determining whether a Financial Instrument is Quoted in an Active Market

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

Classification of HTM Investments

The classification to HTM investments requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling a more than insignificant amount close to maturity or fails to meet the conditions for exemption given by the Philippine SEC - it will be required to reclassify the entire portfolio as AFS investments.

The investments would therefore be measured at fair value and not at amortized cost in the year where tainting has occurred and for the next two succeeding reporting periods.

As of December 31, 2016 and 2015, the carrying value of HTM investments amounted to P530.4 million and P298.7 million, respectively (see Note 7).

Determining Lease Agreements

The Bank has entered into commercial property leases on its investment properties. The Bank has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

Determining Functional Currency

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Estimates

Determining Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position or disclosed in the notes cannot be derived from active markets, they are determined using a variety of valuation techniques acceptable to the market as alternative valuation approaches that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in estimating fair values.

The evaluation includes considerations of liquidity and model inputs such as correlation and volatility.

Fair Value of Derivatives

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

As of December 31, 2016 and 2015, derivative assets amounted to P148.6 million and P81.6 million, respectively. As of December 31, 2016 and 2015, derivative liabilities amounted to P32.6 million and P46.5 million, respectively (see Notes 7 and 27).

Impairment of AFS Equity Investments

The Bank treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20.0% or more of the original cost of investment and 'prolonged' as greater than twelve (12) months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factor for unquoted equities.

As of December 31, 2016 and 2015, the carrying value of AFS equity investments amounted to P12.8 million to P12.7 million (see Note 7).

Credit Losses on Loans and Receivables

The Bank reviews its impaired loans and receivables at least semi-annually to assess whether additional provision for credit losses should be recorded in the statements of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal credit rating of the loan since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

As of December 31, 2016 and 2015, allowance for impairment and credit losses on loans and receivables of the Bank amounted to P523.1 million and P465.0 million, respectively (see Notes 8 and 12). The carrying value of loans and receivables, net of allowance for credit losses, amounted to P22.5 billion and P20.9 billion as of December 31, 2016 and 2015, respectively (see Note 8).

Estimated Useful Lives of Property and Equipment and Computer Software Costs

The estimated useful life used as basis for depreciating property and equipment and amortizing computer software costs were determined on the basis of management's assessment of the period within which the benefits of these property and equipment and computer software costs are expected to be realized taking into account actual historical information on the use of the property and equipment and computer software costs as well as industry standards and averages used by the Parent Bank and the Bank.

Impairment of Nonfinancial Assets - Property and Equipment, Investment Properties and Computer Software Costs

The Bank assesses impairment on property and equipment, investment properties and software costs whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount used is the value in use.

As of December 31, 2016 and 2015, the carrying value of property and equipment amounted to P144.2 million and P123.4 million, respectively (see Note 9). As of December 31, 2016 and 2015, the carrying value of investment properties amounted to P93.7 million and P17.6 million, respectively (see Note 10). As of December 31, 2016 and 2015, the carrying value of computer software costs amounted to P66.1 million and P96.6 million, respectively (see Note 11).

Reversal of allowance for impairment loss on nonfinancial assets recognized in the statements of income amounted to P0.1 million as at December 31, 2016 and 2015 (see Note 10).

Recognition of Deferred Income Taxes

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

The Bank recognized deferred tax assets as of December 31, 2016 and 2015 amounting to P156.9 million and P137.6 million, respectively (see Note 21).

Present Value of Defined Benefit Retirement Obligation

The present value of the defined benefit retirement obligation depends on a number of factors and assumptions such as discount rate and salary increase rate. These assumptions are described in Note 19 to the financial statements.

The Bank determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows to settle the retirement obligations. In determining the appropriate discount rate, the Bank considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions. While it is believed that the Bank's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Bank's defined benefit retirement obligation.

The present value of the Bank's defined benefit retirement obligation amounted to P156.9 million and P149.0 million as at December 31, 2016 and 2015, respectively (see Note 19).

The net pension asset of the Bank amounted to P36.7 million and P25.1 million as at December 31, 2016 and 2015, respectively (see Notes 11 and 19).

Contingent Liabilities and Contingent Assets

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

5. Financial Risk and Capital Management Objectives and Policies

The Bank is in the business of creating value out of taking risks.

Financial risks arise primarily from the use of financial instruments which include:

- Credit Risk
- Market Risk
- Liquidity Risk

The following principles summarize the Bank's overall approach to risk management:

- The BOD provides the overall direction and supervision of the Bank's risk management;
- The key risks faced by the Bank - both financial and non-financial - are managed by appropriate functional levels within the Bank;
- The risk management functions are independent from the businesses (also referred to as Front office) and provide check-and-balance for risk taking units; and
- Risk management involves managing the balance between risk and reward, to enable the Bank to fulfill its commitment to protect shareholder interest, as well as deliver value to the banking public, and comply with relevant regulations.

Risk Management Structure

The BOD is ultimately responsible for oversight of the Bank's risk management process. It created the Risk Management Committee (RMC), a board-level independent committee with explicit authority and responsibility for managing and monitoring risks.

Risk Management Committee - Powers, Duties and Functions

The RMC shall be responsible for the development and oversight of the Bank's Risk Management Program. It shall provide general direction and define the risk philosophy of the Bank.

It shall oversee the system of limits to discretionary authority that the Board delegates to management, will ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

The RMC shall review and approve the Bank's Internal Capital Adequacy Assessment Process (ICAAP). This also includes the review of the Bank's Risk Capital Framework (e.g., credit, market, liquidity and operational risks), including significant inputs and assumptions.

The core responsibilities of the RMC are:

1. *Identify and Evaluate Risk Exposures* - The RMC shall assess the probability of each reported risk becoming reality including the reported estimate of possible effect and cost. Priority areas of concern are those risks that are most likely to occur and with high adverse impact to the Bank when these happen.
2. *Develop Risk Management Strategies* - The RMC shall approve a written plan defining the strategies for managing and controlling the major risks. It shall approve recommended practical strategies to mitigate the risks, avoid and minimize losses if the risk becomes real.
3. *Establish an Appropriate Credit Risk Environment* - The RMC shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of the Bank. The RMC shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in the Bank's products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which shall be reported to it for appropriate action.
4. *Oversee the Implementation of the Risk Management Plan* - The RMC shall direct the dissemination of the risk management plan and loss control procedures to all affected parties. The RMC shall conduct regular discussions on the institution's current risk exposure based on regular management reports and direct concerned units or offices on how to reduce these risks.
5. *Review and Revise the Plan as Needed* - The RMC shall evaluate the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The RMC shall report regularly to the BOD the Bank's over-all risk exposure, actions taken to mitigate the risks, and recommend further action or plans as necessary.

6. *Review and Update the Risk Management Committee Charter Periodically or as Deemed Necessary*
7. *Review and Evaluate Chief Risk Officer (CRO)'s Performance Annually*
8. *Endorse for Confirmation of BOD the Performance Rating of the CRO*
9. *Perform Oversight Functions over the IT Steering Committee (ITSC)* - The RMC shall oversee the ITSC function and regularly provide adequate information to the Board regarding IT performance, status of major IT projects or other significant issues to enable the Board to make well-informed decisions about the Bank's IT Operations.

The CRO being directly reporting to the RMC has the following roles and responsibilities:

- To be actively engaged in the process of setting risk measures and limits for the various business lines and monitoring their performance relative to risk taking and limit adherence. Ongoing monitoring of the risk-taking activities and risk exposures to ensure they are in line with the board-approved risk appetite, risk limits and corresponding capital or liquidity needs (i.e., capital planning).
- To provide independent oversight function on credit risk management organization, including, but not limited to, the following:
 - a. Risk management and control functions that are independent from the credit originating and administration functions;
 - b. Meaningful inputs in policy formulation and limits setting, design and implementation of the Bank's internal credit risk rating systems by way of endorsement of credit policies, guidelines and procedures;
 - c. Periodic exposure and exception monitoring by way of the review of credit risk management reports;
 - d. Review of the validation of Internal Rating System and Credit Scoring Models on a regularly basis; and
 - e. Problem loan management by way of attendance at Credit Committee meeting.
- Unbiased assessment of the quality of individual credits and aggregate credit portfolio, including appropriateness of credit risk rating, classification and adequacy of allowance for loan losses by way of independent credit review.
- To evaluate annually the Bank's internal risk control framework through ICAAP process to satisfy itself on the design and completeness of the framework relative to the Bank's activities and risk profile.
- To consider and recommend to the BOD for approval, through the RMC, the Bank's risk tolerance and in particular:
 - a. To recommend to the Board on an annual basis the Bank's risk tolerance, including risk type limits for Institutional Credit Risk, Retail Credit Risk, Liquidity Risk and Market Risk for the following year; and

- b. To consider any breaches of the Bank's risk tolerance and each of the approved risk type limits and to recommend whether the Board should approve the reduction plan and/or ratify the excess request.
- To evaluate the Bank's risk profile and risk monitoring, in particular with respect to the following:
 - a. Risk appetite;
 - b. Performance vs. risk tolerance;
 - c. Risk trends;
 - d. Risk concentrations;
 - e. Allowance for loan losses;
 - f. Key performance indicators for risk; and
 - g. Capital adequacy.
- To review the Bank's liquidity profile and recommend the overall liquidity risk framework (including risk tolerance) to the Board, including the results of different stress tests and test assumptions.
- To evaluate the appropriateness of the Bank's risk measurement systems such as, but not limited to, the following:
 - a. Daily Value at Risk and any significant credit risk measurement system such as Internal Rating System; and
 - b. Risk and Control Self-Assessment (RCSA) of Operational Risk.

In 2010, the Bank further refined their risk management structure by institutionalizing the role of the CRO. As the Enterprise-Wide Risk Management (EWRM) champion, the CRO facilitates the execution of EWRM processes and infrastructure as a key enabler to achieving the business objectives of the organization. The CRO manages and develops a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks that could interfere with the Bank's objectives and goals.

The following are the different Risk Groups governed by the CRO:

- Office of the CRO;
- Operational and Reputational Risk Management Department (ORRMD); and
- Market Risk Management Department MRMD - Market Risk, Liquidity Risk and Interest Rate Risk in the Banking Books (IRRBB).

Credit Risk

Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and retail loans (customer credit risk) and investment securities (counterparty credit risk).

With respect to corporate credit risk, Institutional Credit Management Group (ICMG) is mainly responsible for the following:

- (a) safeguard the quality of the Bank's institutional loan portfolio; and
- (b) provide support services to the lending units of the Bank.

To safeguard the quality of the loan portfolio of the Bank, ICMG performs the following functions:

- (a) conduct pre-approval review of credit proposals of lending units;
- (b) assist in structuring appropriate credit facilities;
- (c) provide policy guidelines to the lending units in order to standardize the credit process;
- (d) coordinate with the lending units on the required post-approval requirements (i.e., Loan Review Report, Account Planning, etc.) in the management of existing accounts;
- (e) conduct regular meetings to discuss problem accounts;
- (f) review/endorse loan loss provisions for problematic accounts; and
- (g) provide senior management with reports pertaining to the quality of the loan portfolio.

Each credit proposal undergoes an evaluation process in order to determine its acceptability. The evaluation process involves the identification of credit risks after having assessed key factors including, target market/industry, management, appropriateness of credit facilities, terms and conditions, financial performance and condition, collateral and others.

The credit risk identification framework also consists of an internal risk rating system that has a blend of both quantitative and qualitative factors. The Obligor's risk rating (ORR) ranges from ORR 0 to 17, with ORR 0 being the lowest credit risk and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

One of the Bank's risk monitoring exercises is its semi-annual review of corporate accounts via the Loan Review Report (LRR). Exempted from this review are accounts fully-secured by cash or government securities, accounts whose sole credit facility with the Bank is fully secured by unconditional and irrevocable Sovereign Guarantee or under a specific credit/product program, watch-list (EW2/EW3) or classified accounts (Loans Especially Mentioned, Substandard, Doubtful, and Loss), and banks with uncommitted lines. The LRR, accomplished six (6) months after approval date, covers the borrower's relationship with the Bank, updated financial performance, repayment capability, identification of major risks, outlook, etc. It also assesses account classification and ORR. If deterioration in credit is identified, either Institutional Banking Group (IBG) or ICMG have the discretion to include it in any of the Early Warning (EW) buckets. This calls for the submission of a Notification report, quarterly or more frequent LRR (for EW1 accounts), and Account Planning reports (for EW2 and EW3 accounts). If deemed appropriate, EW2 and EW3 accounts may be transferred to Asset Recovery Management Department (ARMD) for handling. Apart from these, the Relationship Manager (RM) is required to provide updates during Credit Committee meetings.

IBG or ARMD RM (depending on the classified account owner) and Litigation Head of Legal Department are also required to report to the Credit Committee the status of the classified accounts at least twice a month and once a month for an EW account. Depending on the outstanding exposure of an EW2/EW3 account, the RM regularly prepares the Account Planning reports for approval either of the Senior Credit Officer (SCO), Credit Committee or Executive Committee. The Account Planning report covers the loan details of the account including the outstanding principal, loan loss provision, the action plan and present status of the account which includes the progress diary enumerating the series of events that took place covering the Account Planning period and financial/operation analysis. The same Account Planning report is referenced for the corresponding BSP classification.

Monthly classified accounts are also being prepared by Credit Administration Department (CAD) for senior management guidance covering the list of classified accounts and its corresponding loan loss provision.

The Head of the ICMG reports regularly to the Credit Committee to discuss the Corporate Credit Risk Profile including but not limited to the Past Due Loan, Non-Performing Loan, Concentration Risk, Action Plan for each Non Performing account and their corresponding timeline.

On the Retail Banking side, RCMG is responsible in managing retail credit risk that mainly arises from granting of loans for the personal consumption of the individual borrowers such as public loans, salary loans for employees of accredited corporate entities and housing or mortgage loans. In addition, RCMG is also responsible for managing credit risk of Small and Medium Enterprise (SME) loans starting in October 2015 considering the similarity of SME loans and retail credits in terms of program lending-based credit risk underwriting and portfolio risk management process.

For retail loans, risk is assessed and managed at a portfolio level. For Public Personal Loans, this is accomplished through the use of Application and Behavioral credit scorecards. For Corporate Personal Loans and Mortgage/Housing Loans, this is performed through the implementation of risk caps (program and deviation) and execution of a risk criteria review process (rule-based criterion or eligibility criteria). Aside from the above, risk assessment through due diligence and comprehensive underwriting review of financial statements is conducted for SME loans.

In line with this approach, risk identification is performed through the following process workflow stages:

Process	Public Personal Loan	Corporate Personal Loan	Housing/ Mortgage Loan	SME Loan
Pre-screening	Y	Y	Y	Y
Duplicate check	Y	Y	Y	Y
Policy check	Y	Y	Y	Y
Credit scorecard	Y	N	N	Y
Credit verification	Y	Y	Y	Y
Appraisal	N	N	Y	Y
Deviation review	Y	Y	Y	Y
Approval/reject	Y	Y	Y	Y

In the execution of the above processes, functional segregation of processor, evaluator and approver responsibilities are observed. Approving authorities are granted based on qualification, competence and capacity. The approving authority hierarchy follows retail core credit policy set by the Parent Bank such that credit delegation is defined by credit officer and senior credit officer levels, by amounts and by risk level in evaluation and approval of its loan applications by product.

Retail credit risk policies and processes are managed by the Bank by upholding the 3-Level Document framework set by the Parent Bank.

1. Policies (Governance, Retail Core Retail Credit Policy) are approved by the BOD.
2. Guidance/Principle (Product Guideline) provides an outline of the business strategy and defined management guidelines including product features, eligibility criteria, account management and approval guidelines as approved by the Bank's President.
3. Procedures and Working Manual:
 - a. Contains the business and credit policies and operating level procedures managed by each department (Product Procedure) that requires approval of the respective Group Heads;
 - b. Defines the routine operational procedures for each business execution (Working Manual) as approved by the respective Group Heads; and
 - c. Outlines the forms and documents utilized by users to perform business activities.

Amendments to the fundamental policies may only be instituted through a progression, completion and analysis of performance of a test program or changes to business initiatives or market behavior as evidenced by empirical data, but still subject to respective approval hierarchy.

In addition, RCMG also handles retail loan portfolio performance reviews and reporting through preparation of monthly asset quality reports, loan portfolio analyses and scorecard performance monitoring reports. Included in these periodic reports are through-the-door analysis, delinquency performance review, industry performance review, risk classification review, scorecard measurement benchmarks review as well as tracking of risk caps.

These functions enable RCMG in the crafting of new and enhanced credit policies and processes that mitigates possible losses due to retail credit risk.

Counterparty Credit Risk

Credit risk with respect to investment securities, including derivative financial instruments, is generally limited to the carrying values (positive fair values for derivatives) reported in the statements of financial position. Counterparty credit risk could arise as a result of counterparties defaulting on their obligations to pay the principal and coupon (positive fair value at maturity for derivatives).

Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is shown below (in thousands):

2016					2015				
		Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancements	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancements
	Note								
Credit Risk Exposure Relating to On-balance Sheet Assets are as Follows									
Loans and receivables									
Due from BSP and other banks		P8,208,293	P -	P8,208,293	P -	P5,624,926	P -	P5,624,926	P -
Interbank loans receivable		2,157,292	-	2,157,292	-	1,719,376	-	1,719,376	-
Loans and discounts	8				-				
Institutional banking		15,849,682	2,239,849	13,609,833	2,239,849	14,436,190	1,787,666	12,648,524	1,787,666
Retail banking		3,639,375	-	3,639,375	-	3,510,698	-	3,510,698	-
Mortgage banking		1,984,232	1,963,415	20,817	1,963,415	1,979,093	1,658,343	320,750	1,658,343
Small business loans		1,082,603	1,025,291	57,312	1,025,291	902,084	251,892	650,192	251,892
Accrued interest receivable		134,399	-	134,399	-	138,746	-	138,746	-
Other receivables		290,386	-	290,386	-	297,907	-	297,907	-
Unquoted debt securities	8	42,480	-	42,480	-	104,885	-	104,885	-
Other assets	11	30,592	-	30,592	-	29,648	-	29,648	-
Subtotal		33,419,334	5,228,555	28,190,779	5,228,555	28,743,553	3,697,901	25,045,652	3,697,901
Financial assets at FVPL									
Held for trading government debt	7	418,518	-	418,518	-	121,996	-	121,996	-
Derivative assets		148,575	-	148,575	-	81,621	-	81,621	-
Subtotal		567,093	-	567,093	-	203,617	-	203,617	-
AFS investments									
Government debt	7	950,872	-	950,872	-	931,125	-	931,125	-
Unquoted equity securities		12,841	-	12,841	-	12,721	-	12,721	-
Subtotal		963,713	-	963,713	-	943,846	-	943,846	-
Held-to-maturity investments									
Government debt	7	530,419		530,419	-	298,658	-	298,658	-
		35,480,559	5,228,555	30,252,004	5,228,555	30,189,674	3,697,901	26,491,773	3,697,901
Credit Risk Exposures Relating to Off-balance Sheet Items are as Follows									
Credit commitments and other credit related-liabilities									
	25	1,448,983	-	1,448,983	-	1,736,440	-	1,736,440	-
Total		P36,929,542	P5,228,555	P31,700,987	P5,228,555	P31,926,114	P3,697,901	P28,228,213	P3,697,901

The table below sets out the principal types of collateral held against loans and receivables (in thousands):

	2016	2015
Property	P4,476,199	P3,574,102
Cash	670,806	68,306
Others	81,550	55,493
	P5,228,555	P3,697,901

Other receivables include loans granted to employees, interest and other receivables. Other assets in the table above exclude non-financial assets such as computer software costs - net, prepaid expenses and other charges, net pension asset and miscellaneous.

Contingent assets consist primarily of standby letters of credit, while commitments pertain to undrawn loan commitments for which the Bank is contractually obliged to extend once the borrowers draw on such commitments.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the credit risk that could arise in the future as a result of changes in values.

For the other financial assets, the carrying amount represents the maximum exposure to credit risk as of December 31, 2016 and 2015.

Credit-Related Commitments Risks

The Bank extends guarantees, commitment facilities, letters of credit and other off-balance sheet credit-related commitments that may require the Bank to make payments on borrower's behalf. Such transactions expose the Bank to credit risks similar to loans and receivables and are monitored and managed by the Bank using the same credit risk control and management processes and policies. Some consumer asset products under this nature are covered by documentations and drafts that are reviewed and prepared by Bank's lawyers and compliance officers to ensure that it is within acceptable risk and standards. Guarantees carry clauses that are all with reference to applicable laws, regulations, and approved guidelines and policies with some carrying expiry periods or validity to ensure that it is time bound and flexible enough to control losses from changes in external environment to include, among others, changing market conditions such as interest rates or pricing, and monetary policies. See Note 25 for further details of these commitments.

Risk Concentrations of the Maximum Exposure to Credit Risk

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

Concentrations of risk are managed by counterparty and by industry sector.

An industry sector analysis of both the on- and off-balance sheet exposures, before taking into account collateral held or other credit enhancements, is as follows (in thousands):

	2016						Total
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	
Financial intermediaries*	P2,296,959	10.2	P12,414,369	99.7	P -	-	P14,711,328
Manufacturing	5,662,921	25.2	-	-	-	-	5,662,921
Wholesale and retail	3,941,556	17.6	-	-	-	-	3,941,556
Real estate, renting and business activities	1,083,203	4.8	-	-	-	-	1,083,203
Public administration and defense	26,897	0.1	-	-	-	-	26,897
Construction	928,181	4.1	-	-	-	-	928,181
Transport, storage and communications	1,709,131	7.6	-	-	1,448,983	100.0	3,158,114
Agriculture, hunting and forestry	80,009	0.4	-	-	-	-	80,009
Electricity, gas and water	17,138	0.1	-	-	-	-	17,138
Others**	7,277,162	32.2	43,033	0.3	-	-	7,320,195
Total	23,023,157	102.3	12,457,402	100.0	1,448,983	100.0	36,929,542
Allowance for credit losses	(523,114)	(2.3)	-	-	-	-	(523,114)
Unearned interest discount and capitalized interest	(4,638)	(0.0)	-	-	-	-	(4,638)
	P22,495,405	100.0	P12,457,402	100.0	P1,448,983	100.0	P36,401,790

	2015						Total
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	
Financial intermediaries*	P3,801,116	18.2	P8,777,702	99.5	P -	-	P12,578,818
Manufacturing	3,976,407	19.0	-	-	1,461,730	84.2	5,438,137
Wholesale and retail	3,191,824	15.3	-	-	-	-	3,191,824
Real estate, renting and business activities	2,438,013	11.7	-	-	-	-	2,438,013
Public administration and defense	17,731	0.1	-	-	-	-	17,731
Construction	824,242	3.9	-	-	-	-	824,242
Transport, storage and communications	970,457	4.6	-	-	-	-	970,457
Agriculture, hunting and forestry	63,368	0.3	-	-	-	-	63,368
Electricity, gas and water	10,006	0.0	-	-	-	-	10,006
Others**	6,076,441	29.1	42,369	0.5	274,710	15.8	6,393,520
Total	21,369,605	102.2	8,820,071	100.0	1,736,440	100.0	31,926,116
Allowance for credit losses	(465,008)	(2.2)	-	-	-	-	(465,008)
Unearned interest discount and capitalized interest	(4,445)	(0.0)	-	-	-	-	(4,445)
	P20,900,152	100.0	P8,820,071	100.0	P1,736,440	100.0	P31,456,663

*Financial intermediaries include investment in Landbank Bonds classified as 'Unquoted debt securities'.

**Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

The Bank generally considers concentration risk as excessive when the ratio of a particular segment's exposure (e.g., this may be an industry demographic attribute, or a program) to the total portfolio exceeds predetermined limits.

The Bank considers concentration risk to be present in its loans and receivables when the total exposure to a particular industry or sector exceeds 25.0% of the total loan portfolio. The BSP considers that credit concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of the total loan portfolio. As of December 31, 2016 and 2015, the Bank does not have significant loan concentration to any particular industry based on BSP threshold.

The Bank manages concentration risk by gearing policies towards regular monitoring and periodic review of the set limits per predetermined segments. Annual updates to the policy include a review of the industry concentration limits and other segmental concentrations within the portfolio. Business intelligence reports sourced from internal and external parties are used as guide in setting up the limits yearly. Industries covered under the industry concentration limits are similarly reviewed to update classifications and coverage.

Credit Quality per Class of Financial Assets

The credit quality of financial assets is monitored and managed using external and internal ratings. The credit quality of investment securities is generally monitored by reference to the internal ratings except otherwise when given tools do not apply to the issuing entity, external ratings provided by accredited external credit assessment rating institutions are used.

In cognizance of the requirements of the BSP, the ORR was implemented to all applicable corporate accounts of the IBG of the Bank. The objectives of the system are the following:

- (a) to have a standard system of credit rating;
- (b) to be able to objectively quantify the credit quality of an account;
- (c) to have a “benchmark” for credit/loan review; and
- (d) to train and instill discipline in assessing credit risk among account officers and credit officers.

The rating system is an amalgamation of quantitative and qualitative factors. The quantitative factors include, among others, financial indicators on liquidity, leverage, and cash flows. The qualitative factors include among others the quality of management, market standing, reliability of financial statements, etc.

The ORR of each account shall be recorded together with other information such as the date the ORR was conducted, and the account officer who conducted the ORR. These data combined with other historical and future ORR data on the loan portfolio will be used to estimate the loan default rates associated with each rating grade.

It is the Bank’s policy to maintain accurate and of consistent risk ratings across the credit portfolio. This facilitates focused management of major potential risk and the comparison of credit exposures across all lines of business, demographic and products.

The table below shows the credit risk rating comprising each category of credit quality and the equivalent external grades for each internal credit risk rating applied for comparison purposes only.

	ORR Internal Credit Risk Ratings (Institutional Banking)	Moody's Equivalent Grades**
		Applicable to only the central government, central bank and their agencies of the Republic of China and sovereign states with S&P medium- and long-term ratings at AA- or higher, or multilateral development banks with risk weights at 0% approved by the Basel Committee on Banking Supervision.
Investment grade	0	
	1	Aa3 or higher
	2	A1 to A3
	3	Baa1
	4	Baa2
	5	Baa3
Sub-investment grade	6	Ba1
	7	Ba2
	8	Ba2*-
	9	Ba3
High-risk	10	B1
	11	B2
	12	B3
	13	Caa1 - Ca
Watch-list	14	
Default	15	
	16	
	17	

**already equivalent to substandard status*

***equivalent Standard and Poor's ratings apply*

Investment grade receivables include government, central bank, central government or their related bureaus and entities whose S&P ratings are higher than or equal to AA-, multilateral development banks risk weighted at 0.0% by Basel Committee, superior multinational banks, top multinational corporations, above average to exceptionally high quality jumbo firms, and exceptionally good middle market and small and medium enterprises. Sub-investment grade receivables are below to typically above average jumbo firms, below average to very high quality middle market firms, or average to very high quality small and medium enterprises. High grade receivables represent poor, weak, far below average jumbo firms, middle market, and small and medium enterprises. Obligors demonstrating initial warning signals and credit concerns also fall under this category. Watchlist to default grade receivables are classified loans by the Bangko Sentral ng Pilipinas.

For Retail Banking, credit quality is monitored using internal ratings. For Public Personal Loans, risk differentiation or risk rating is established by scorecard models. Scorecard variables are assigned scores based on their discriminative power to differentiate good-bad factors. Higher scores assigned to a loan applicant denote better risk and therefore lower propensity to default. For Corporate Personal Loans, the employer's repayment management and performance within its defined default ratio caps is salient to measuring risk.

For Mortgage portfolio, risk differentiation is tied to income classification. Performance review of the mortgage portfolio identifies income as a good risk indicator, such that, higher income segments denotes better risk as manifested in the risk-ranking of customers by income bands.

For SME loans, the Bank's internal credit rating is composed of a numeric rating which provides an assessment of the creditworthiness and outlook of the account. According to different size of loan amount, either Credit Scoring Rating (CSR) or ORR is used to measure the risk level. CSR is designed for the evaluation of lower loan amount, and considers factors such as Character and Management Assessment, Business Consideration and Conditions, and Financial Performance and Repayment Indicators to differentiate the risk.

The table below shows the credit score rating comprising each category of credit quality.

CSR	Credit Scoring Rating	Credit Quality Description
57 - 62	1	Excellent
51 - 56	2	Strong
45 - 50	3	Good
39 - 44	4	Satisfactory
31 - 38	5	Acceptable
Below 31	6	Risky/Watchlist
	7	Special Mention
	8	Substandard
	9	Doubtful
	10	Loss

For SME loans with higher loan amount, ORR, the model used by Institutional Banking is adopted to adequately measure the risk.

The credit quality of trading and financial investment securities is generally monitored through the internal and external ratings which are provided by eligible external credit rating agencies. The table above presents the mapping of external ratings to the Bank's credit quality classification.

The tables below show the credit quality by class of the Bank's financial assets, including loans and receivables (gross of allowance for credit losses and unearned interest discount, in thousands).

	2016								Total
	Investment Grade	Sub-investment Grade	High Risk	Watch-list	Default	Unrated	Past Due but not Specifically Impaired	Specifically Impaired	
Loans and receivables									
Due from BSP	P6,078,965	P -	P -	P -	P -	P -	P -	P -	P6,078,965
Due from other banks	2,129,328	-	-	-	-	-	-	-	2,129,328
Interbank loans receivable	2,157,292	-	-	-	-	-	-	-	2,157,292
Loans and discounts									
Institutional banking	1,731,931	4,757,673	9,110,593	-	-	-	-	249,485	15,849,682
Retail banking	2,569,188	781,232	-	-	12,637	-	26,722	249,596	3,639,375
Mortgage banking	1,465,336	481,979	-	-	9,572	-	415	26,930	1,984,232
Small business loans	127,419	954,784	-	-	-	-	400	-	1,082,603
Accrued interest receivable	36,437	16,425	18,653	-	52	62,678	-	154	134,399
Others receivables	-	-	-	-	-	290,386	-	-	290,386
Unquoted debt securities	42,480	-	-	-	-	-	-	-	42,480
Other assets	-	-	-	-	-	30,592	-	-	30,592
Subtotal	16,338,376	6,992,093	9,129,246	-	22,261	383,656	27,537	526,165	33,419,334
Financial assets at FVPL									
Held-for-trading government debt	418,518	-	-	-	-	-	-	-	418,518
Derivative assets	-	148,575	-	-	-	-	-	-	148,575
Subtotal	418,518	148,575	-	-	-	-	-	-	567,093
AFS investments									
Government debt	-	950,872	-	-	-	-	-	-	950,872
Unquoted equity securities	12,841	-	-	-	-	-	-	-	12,841
Subtotal	12,841	950,872	-	-	-	-	-	-	963,713
HTM investments									
Government debt	530,419	-	-	-	-	-	-	-	530,419
Total	P17,300,154	P8,091,540	P9,129,246	P -	P22,261	P383,656	P27,537	P526,165	P35,480,559

	2015						Past Due but not Specifically Impaired	Specifically Impaired	Total
	Neither Past Due nor Specifically Impaired								
	Investment Grade	Sub-investment Grade	High Risk	Watch-list	Default	Unrated			
Loans and receivables									
Due from BSP	P3,971,812	P -	P -	P -	P -	P -	P -	P -	P3,971,812
Due from other banks	1,653,114	-	-	-	-	-	-	-	1,653,114
Interbank loans receivable	1,719,376	-	-	-	-	-	-	-	1,719,376
Loans and discounts									
Institutional banking	2,043,506	5,315,019	6,810,039	-	-	-	11,526	256,100	14,436,190
Retail banking	2,423,482	757,872	-	-	12,487	-	38,128	278,729	3,510,698
Mortgage banking	1,396,079	473,204	-	-	13,532	-	10,656	85,622	1,979,093
Small business loans	748,278	153,806	-	-	-	-	-	-	902,084
Accrued interest receivable	36,054	15,572	16,516	-	58	64,176	-	6,370	138,746
Others receivables	-	-	-	-	-	297,907	-	-	297,907
Unquoted debt securities	104,885	-	-	-	-	-	-	-	104,885
Other assets	-	-	-	-	-	29,648	-	-	29,648
Subtotal	14,096,586	6,715,473	6,826,555	-	26,077	391,731	60,310	626,821	28,742,353
Financial assets at FVPL									
Held-for-trading government debt	121,996	-	-	-	-	-	-	-	121,996
Derivative assets	-	81,621	-	-	-	-	-	-	81,621
Subtotal	121,996	81,621	-	-	-	-	-	-	203,617
AFS investments									
Government debt	-	931,125	-	-	-	-	-	-	931,125
Unquoted equity securities	12,721	-	-	-	-	-	-	-	12,721
Subtotal	12,721	931,125	-	-	-	-	-	-	943,846
HTM investments									
Government debt	298,658	-	-	-	-	-	-	-	298,658
Total	P14,529,961	P7,728,219	P6,826,555	P -	P26,077	P391,731	P60,310	P626,821	P30,189,674

The table below shows the aging analysis of past due but not specifically impaired loans and receivables by class (in thousands).

	2016			2015		
	Less than 30 Days	31 to 90 Days	Total	Less than 30 Days	31 to 90 Days	Total
Loans and Discounts						
Institutional banking	P -	P -	P -	P11,526	P -	P11,526
Retail banking	26,722	-	26,722	28,162	9,966	38,128
Mortgage banking	415	-	415	202	10,454	10,656
Small business loans	400	-	400	-	-	-
Total	P27,537	P -	P27,537	P39,890	P20,420	P60,310

The above aging analysis already excludes accounts that have been assessed to be specifically impaired. Further, the definition of past due follows that of PFRS 7, which states that a financial asset is past due when the counterparty has failed to make a principal or interest payments when due.

The detailed information with respect to the Bank's allowance for impairment and credit losses on loans and receivables are disclosed in Note 12.

Included in specifically impaired financial assets are the Bank's restructured loan receivables. The table below shows the carrying amounts of restructured loan receivables by class (in thousands):

	2016	2015
Institutional banking:		
Performing	P29,920	P134,486
Non-performing	92,500	-
Personal loans:		
Performing	2,817	2,649
Non-performing	2,076	2,823
Mortgage banking:		
Performing	6,840	9,590
	P134,153	P149,548

Restructured performing and non-performing loans (NPLs) of the Bank, net of specific impairment allowances as determined by PAS 39, as of December 31, 2016 and 2015 amounted to P36.5 million and P94.2 million, respectively.

Non-performing Loans

The Bank monitors its NPLs ratio as part of its credit risk monitoring and reporting to the BSP. Shown below are the Bank's NPL:

	2016	2015
Secured	P8,720,595	P75,405,911
Unsecured	452,066,096	279,967,631
	P460,786,691	P355,373,542

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

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

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.0%) of the total receivable balance.

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

Collateral and Credit Risk Mitigation Techniques

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Bank follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for loans and receivables are as follows:

- For Institutional Lending - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); and
- For Retail Lending - cash, securities, mortgages on residential and commercial properties.

Management regularly monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of collateral is considered during the review of the adequacy of the allowance for impairment and credit losses. For unsecured lending, the Bank performs comprehensive credit evaluation process before each loan is approved.

The following table shows information relating to loans and receivables (at gross amounts) broken down into secured and unsecured, with types of collateral being shown for the secured portion:

	2016		2015	
	Amount	%	Amount	%
Secured by:				
Real estate	P4,334,212,169	18.8	P3,667,688,064	17.2
Hold-out on deposits	1,186,018,987	5.2	765,728,731	3.6
Mortgage trust indenture	464,073,703	2.0	581,116,935	2.7
Chattel	171,587,435	0.8	11,922,788	0.1
Government bonds	99,187,869	0.4	71,999,075	0.3
Government guarantee	70,698,054	0.3	126,582,862	0.6
Stand by letter of credit (LC)	51,338,706	0.2	116,865,552	0.5
	6,377,116,923	27.7	5,341,904,007	25.0
Unsecured	16,646,040,062	72.3	16,027,700,210	75.0
	P23,023,156,985	100.0	P21,369,604,217	100.0

For past due and impaired loans and discounts, the fair values of real estate collaterals held amounted to P8.7 million and P109.2 million as of December 31, 2016 and 2015, respectively. There were no other types of collaterals held during 2016 and 2015.

Fair values were determined by the Bank's internal appraisers, or by accredited external appraisers. Normally, there are three approaches available to the Bank in arriving at the fair value of collateral (i.e., real estate and chattel). These are the cost approach, market data approach and income approach.

The cost approach takes into consideration the current cost of reproducing a property less depreciation from all sources (i.e., deterioration, functional and economic obsolescence). On the other hand, the market data approach takes into consideration the value indicated by recent sales of comparable properties in the market. Lastly, income approach takes into consideration the value which the property's net earning power will support based upon a capitalization of net income.

The Bank utilizes all three approaches to determine the fair values of the collateral and chooses the appropriate valuation approach on a case-to-case basis.

As of the year ended December 31, 2016 and 2015, no collaterals were subjected to repurchase and reverse repurchase agreements with BSP.

Liquidity Risk

Liquidity risk is the risk of loss to earnings or capital due to the inability to meet funding requirements within a reasonable period of time at a reasonable price.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

MRMD is responsible in managing liquidity risk. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

The table below shows the maturity profile of the Bank's financial liabilities, based on undiscounted contractual cash flows (in millions):

	2016					Total
	On Demand	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than One Year	
Deposit liabilities:						
Demand	P7,722	P -	P -	P -	P -	P7,722
Savings	5,841	-	-	-	-	5,841
Time	7,061	4,181	1,487	595	80	13,404
Bills and acceptances payable	11	-	-	-	-	11
Manager's checks	52	-	-	-	-	52
Accrued interest and other expenses*	347	-	-	-	-	347
Other liabilities**	1,470	-	-	-	-	1,470
	22,504	4,181	1,487	595	80	28,847
Future interest payments	10	6	12	27	-	55
	22,514	4,187	1,499	622	80	28,902
Financial liabilities at FVPL:						
Forward contract payable	8,890	-	-	-	-	8,890
Forward contract receivable	(8,319)	-	-	-	-	(8,319)
	571	-	-	-	-	571
	P23,085	P4,187	P1,499	P622	P80	P29,473

*Excludes accrued taxes and other non-financial accruals.

**Excludes withholding taxes payable and miscellaneous liabilities.

	2015					Total
	On Demand	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than One Year	
Deposit liabilities:						
Demand	P6,478	P -	P -	P -	P -	P6,478
Savings	4,344	-	-	-	-	4,344
Time	3,467	3,396	871	671	97	8,502
Bills and acceptances payable	2,137	631	-	-	-	2,768
Manager's checks	38	-	-	-	-	38
Accrued interest and other expenses*	298	-	-	-	-	298
Other liabilities**	1,240	-	-	-	-	1,240
	18,002	4,027	871	671	97	23,668
Future interest payments	13	8	24	1	-	46
	18,015	4,035	895	672	97	23,714
Financial liabilities at FVPL:						
Forward contract payable	13,427	-	-	-	-	13,427
Forward contract receivable	(13,226)	-	-	-	-	(13,226)
	201	-	-	-	-	201
	P18,216	P4,035	P895	P672	P97	P23,915

*Excludes accrued taxes and other non-financial accruals.

**Excludes withholding taxes payable and miscellaneous liabilities.

The above maturity table shows the undiscounted cash flows whose expected maturities are not the same as the asset-liability gap. The Bank does not expect all time depositors to require repayment on the earliest date the Bank could be required to pay. Further, the maturity table does not reflect expected cash flows based on deposit behavior and historical retention rate.

Accrued interest and other expenses exclude taxes, payroll-related balances and other non-financial items. Other liabilities exclude non-financial liabilities such as withholding taxes payable and miscellaneous.

The table below shows the contractual expiry by maturity of the Bank's off-balance sheet commitments (in thousands).

	2016					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
Commitments	P -	P -	P -	P -	P1,448,983	P1,448,983
Contingent liabilities	133,847	1,201,618	590,315	1,611,405	-	3,537,185
Others	3,545	-	-	-	-	3,545
Total	P137,392	P1,201,618	P590,315	P1,611,405	P1,448,983	P4,989,713

	2015					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
Commitments	P -	P -	P -	P -	P1,736,440	P1,736,440
Contingent liabilities	91,731	202,712	1,230	-	-	295,673
Others	4,481	-	-	-	-	4,481
Total	P96,212	P202,712	P1,230	P -	P1,736,440	P2,036,594

As required by the BSP, the Bank sets aside funds in due from BSP as liquidity reserves. These funds are withdrawable on demand and are used as financial assets held for managing liquidity risk (see Note 13). The table further below on funding gap analysis provides a more comprehensive disclosure on how these financial assets are used to manage the Bank's liquidity risk.

To ensure that adequate liquidity is maintained at all times, the Bank's Liquidity and Balance Sheet Management Unit diversifies funding sources and evaluates cash flows and future funding needs on a daily basis. This involves projecting the Bank's liquidity position under current market conditions and stress scenarios. In addition to its core deposit base, the Bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the interbank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP statutory reserves on its non-FCDU deposits.

Liquidity risk control entails primarily the setting of risk limits, which define management's tolerance for liquidity risk. Specifically, limits are set on the maximum cumulative outflow and level of interbank borrowings. Liquidity risk is also monitored through the use of liquidity ratios. One of the more important liquidity ratios is the ratio of net liquid assets to total deposits. Net liquid assets consist of the sum of cash, due from banks, interbank loans, securities held for trade, available for sale, and held to maturity and unquoted debt securities with remaining maturities of less than one month, less interbank borrowings. The ratios for the year 2016 and 2015 were as follows:

	2016	2015
December 31	45.1%	31.7%
Average during the year	38.9%	39.5%
Highest	45.1%	54.0%
Lowest	28.1%	31.7%

The funding gap analysis using estimated cash flows (in thousands) are as follows:

	2016								
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	Total
Assets									
Loans and receivables									
Cash and other cash items	P428,066	P -	P -	P -	P -	P -	P -	P -	P428,066
Due from BSP	6,078,965	-	-	-	-	-	-	-	6,078,965
Due from other banks	2,129,328	-	-	-	-	-	-	-	2,129,328
Interbank loans receivable	2,157,292	-	-	-	-	-	-	-	2,157,292
Loans and discounts - gross	3,956,840	2,882,846	4,354,446	1,748,263	2,918,704	3,315,615	1,070,199	2,776,244	23,023,157
Other assets*	1,788	1,941	1,472	1,447	1,607	2,900	12,922	6,515	30,592
Subtotal	14,752,279	2,884,787	4,355,918	1,749,710	2,920,311	3,318,515	1,083,121	2,782,759	33,847,400
Financial assets at FVPL	148,575	7	374,400	205	37,721	131	-	6,054	567,093
AFS investments	-	-	-	50,958	-	108,035	-	804,720	963,713
HTM investments	-	1,010	-	17,832	35,622	-	-	475,955	530,419
Total financial assets	14,900,854	2,885,804	4,730,318	1,818,705	2,993,654	3,426,681	1,083,121	4,069,488	35,908,625
Liabilities									
Financial liabilities at FVPL derivative liabilities	32,593	-	-	-	-	-	-	-	32,593
Other financial liabilities at amortized cost									
Deposit liabilities	20,623,646	4,181,156	1,487,384	595,325	79,575	-	-	-	26,967,086
Bills payable	-	-	-	-	-	-	-	-	-
Outstanding acceptances	10,584	-	-	-	-	-	-	-	10,584
Manager's checks	52,177	-	-	-	-	-	-	-	52,177
Accrued interest and other expenses**	347,175	-	-	-	-	-	-	-	347,175
Other liabilities***	1,470,339	-	-	-	-	-	-	-	1,470,339
Total financial liabilities	22,536,514	4,181,156	1,487,384	595,325	79,575	-	-	-	28,879,954
Asset-liability gap	(P7,635,660)	(P1,295,352)	P3,242,934	P1,223,380	P2,914,079	P3,426,681	P1,083,121	P4,069,488	P7,028,671

*Includes returned checks and other cash items and rent deposit

**Excludes accrued taxes and other non-financial accruals

***Excludes withholding taxes payable and miscellaneous liabilities

	2015								Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	
Assets									
Loans and receivables									
Cash and other cash items	P422,897	P -	P -	P -	P -	P -	P -	P -	P422,897
Due from BSP	3,971,812	-	-	-	-	-	-	-	3,971,812
Due from other banks	1,653,114	-	-	-	-	-	-	-	1,653,114
Interbank loans receivable	1,719,376	-	-	-	-	-	-	-	1,719,376
Loans and discounts - gross	3,056,100	4,371,972	1,892,824	694,220	1,721,699	4,890,788	696,760	4,045,241	21,369,604
Other assets*	3,190	396	1,911	4,796	3,203	890	2,989	12,273	29,648
Subtotal	10,826,489	4,372,368	1,894,735	699,016	1,724,902	4,891,678	699,749	4,057,514	29,166,451
Financial assets at FVPL	81,621	-	-	-	1,433	-	49,539	71,024	203,617
AFS investments	-	-	47,302	-	49,219	-	48,167	799,158	943,846
HTM investments	-	-	-	52,251	1,052	35,368	-	209,987	298,658
Total financial assets	10,908,110	4,372,368	1,942,037	751,267	1,776,606	4,927,046	797,455	5,137,683	30,612,572
Liabilities									
Financial liabilities at FVPL derivative liabilities	46,490	-	-	-	-	-	-	-	46,490
Other financial liabilities at amortized cost									
Deposit liabilities	14,288,267	3,395,894	871,212	671,295	96,806	-	-	-	19,323,474
Bills payable	2,117,700	631,461	-	-	-	-	-	-	2,749,161
Outstanding acceptances	19,103	-	-	-	-	-	-	-	19,103
Manager's checks	38,368	-	-	-	-	-	-	-	38,368
Accrued interest and other expenses**	297,798	-	-	-	-	-	-	-	297,798
Other liabilities***	1,239,597	-	-	-	-	-	-	-	1,239,597
Total financial liabilities	18,047,323	4,027,355	871,212	671,295	96,806	-	-	-	23,713,991
Asset-liability gap	(P7,139,213)	P345,013	P1,070,825	P79,972	P1,679,800	P4,927,046	P797,455	P5,137,683	P6,898,581

*Includes returned checks and other cash items and rent deposit

**Excludes accrued taxes and other non-financial accruals

***Excludes withholding taxes payable and miscellaneous liabilities

Market Risk

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange, equities and commodities. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities, and derivatives.

MRMD is responsible in managing market risk. MRMD performs the second line of defense. It is responsible for designing and executing appropriate identification, measurement, monitoring, control and reporting of market risk; and developing the market risk management policy and relevant procedures; and monitoring and reporting overall market risk profile and limit utilization.

The Bank classifies exposures to market risk into either trading or non-trading portfolios.

It is exposed to the potential loss in its trading portfolio because the values of its trading positions are sensitive to changes in the market prices and rates. Similarly, it is also exposed to market risk in its non-trading portfolio.

The Bank sets its market risk limits by considering market predictions, capital and annual budgets. It takes into account the correlation among different market risk factors to estimate potential loss using Value-at-Risk (VaR) approach and also determines if this potential loss is appropriate in light of the size of its annual budget. The Bank also determines its market risk limits by considering the experience of its risk-taking units and its risk appetite.

The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate and foreign exchange factor sensitivities. The calculation of the factor sensitivities is obtained by measuring the effect of a one (1) unit increase in current interest rates or current foreign exchange rates upon various product types.

The Bank uses the VaR methodology in managing probable losses arising from potential changes in the market price of underlying assets. In deriving the VaR, the Bank employs the historical simulation approach, which estimates potential losses by assuming that future price movements will mimic historical trends.

The VaR methodology is a statistical estimate based on a historical simulation approach and generated from a historical database. It is important to note that VaR is only an estimate of maximum potential loss given a level of confidence. It can be based on historical data, which may not necessarily replicate itself in the future, or be computed from randomly generated numbers. As such, VaR cannot predict losses with 100.0% confidence.

The VaR will be based on a 1-day holding period, a level of confidence of 99.0% and a time series equivalent to 500 days (or two years). The level of confidence can be adjusted in response to heightened volatility in the market.

The following are the VaR statistics (in millions):

	2016		
	Foreign Exchange	Fixed Income	Total VaR
December 31	P2.6	P1.7	P2.9
Average daily	4.9	8.9	10.7
Highest	9.6	41.7	42.8
Lowest	0.6	0.0	1.1

	2015		
	Foreign Exchange	Fixed Income	Total VaR
December 31	P1.3	P2.7	P2.4
Average daily	4.9	12.2	13.5
Highest	13.0	61.3	62.4
Lowest	1.3	0.6	2.4

The fixed income column comprises both Peso and Dollar bonds.

The highs and lows of the total portfolio may not equal the sum of the individual components as the highs and lows of the individual portfolios may have occurred on different trading days. The VaR for foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, considers the correlation effects between the two risks. Annually, the BOD sets the VaR limit for the trading books to which compliance is reviewed daily by Risk Management.

The model's validity is assessed daily via back-testing. The back testing is an ex-post comparison of the VaR generated by the model against actual daily changes in portfolio value over longer periods of time. Based on 99.0% coverage with 250 observations, the number of times that the daily losses exceed the VaR estimates is the number of "exceptions." The higher the exception number suggests a more significant problem with the quality or accuracy of the model, and hence more regulatory capital is required.

Market risk positions are also subjected to daily stress tests to ensure that the Bank could withstand an extreme event. Historical events considered for stress testing represent crises - political or economic - which impacted greatly and adversely the financial markets.

Interest Rate Risk

The table below summarizes the Bank's exposure to interest rate risk as at December 31, 2016 and 2015.

HFT Summary	2016	2015
USD (PVBP) PHP	(P89,425)	(P98,456)
PHP (PVBP) PHP	53,584	9,266

Foreign Exchange Risk

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2016 and 2015. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (in thousands):

	2016			2015		
	USD	Others	Total	USD	Others	Total
Assets						
Loans and receivables:						
Cash and other cash items	P49,422	P18,011	P67,433	P35,365	P21,093	P56,458
Due from BSP and other banks	1,958,392	146,533	2,104,925	1,593,981	22,976	1,616,957
Interbank loan receivable	480,828	-	480,828	1,069,376	-	1,069,376
Loans and discounts - net	4,496,472	374,643	4,871,115	4,187,308	1,282,455	5,469,763
Financial assets at FVPL	148,575	-	148,575	81,621	-	81,621
AFS investments	950,873	-	950,873	881,648	-	881,648
HTM investments	475,954	-	475,954	209,987	-	209,987
	8,560,516	539,187	9,099,703	8,059,286	1,326,524	9,385,810
Liabilities						
Other financial liabilities at amortized cost:						
Deposit liabilities	7,799,191	116,778	7,915,969	5,591,654	21,956	5,613,610
Financial liabilities at FVPL	32,593	-	32,593	46,490	-	46,490
Bills payable	-	-	-	2,117,700	631,461	2,749,161
Outstanding acceptances	10,584	-	10,584	18,376	727	19,103
Accrued interest and other expenses	11,435	-	11,435	6,319	3,008	9,327
Other liabilities	262,672	-	262,672	393,665	(5)	393,660
	8,116,475	116,778	8,233,253	8,174,204	657,147	8,831,351
Net Exposure	P444,041	P422,409	P866,450	(P114,918)	P669,377	P554,459

Information relating to the Bank's currency derivatives is contained in Note 27. The Bank has outstanding foreign currency spot transactions (in equivalent peso amounts) of P0.4 billion (sold) and P0.2 billion (bought) as of December 31, 2016 and P0.7 billion (sold) and P0.7 billion (bought) as of December 31, 2015.

Foreign exchange factor sensitivities ("FX Delta") represent the change in the net present value of the foreign exchange portfolios caused by a unit shift of 100.0% of the underlying currency's exchange rate. The FX Delta risk comes from the FX exposure of derivatives, the hedging of foreign exchange positions and foreign currency cash positions.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU. Foreign currency deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. The BSP also requires a 30.0% liquidity reserve on all foreign currency liabilities held through FCDUs.

Outside the FCDU, the Bank has additional foreign currency assets and liabilities in the RBU representing trade assets and corresponding foreign currency borrowings.

Interest Rate Risk in Banking Book

Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. Changes in interest rates affect: (1) the Bank's earnings by changing its net interest income (NII) and the level of other interest rate-sensitive income; and (2) the underlying economic value of the Bank's assets, liabilities and off-balance sheet instruments by means of reducing the present value of future cash flows (and in some cases, the cash flows themselves).

As the primary interest rate risk management unit, the Liquidity and Balance Sheet Management Unit adjusts the repricing structure of assets and liabilities to ensure that interest rate risk exposure stays within a controllable range. Limits on the change in one-year earnings (delta NII) and economic value of equity (EVE) given a one basis point change in interest rates are also established.

The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Accordingly, limits on interest rate gaps for stipulated periods have been established by management.

The tables below show the sensitivity of the Bank's one-year earnings and economic value of equity to possible changes in interest rates as of December 31, 2016 and 2015. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

2016											
Currency	Sensitivity of		Sensitivity of Equity								
	Increase in bps	Net Interest Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
(In Thousand Pesos)											
PHP	15	P5,183	(P816)	(P172)	P5,623	(P2,148)	(P4,733)	(P362)	P -	P -	(P2,608)
(in 000s)	20	6,910	(1,087)	(229)	7,494	(2,862)	(6,306)	(481)	-	-	(3,471)
	25	8,638	(1,359)	(286)	9,365	(3,576)	(7,877)	(601)	-	-	(4,334)
USD	15	(203)	(197)	(111)	2,687	455	57	(543)	(1,752)	(10,751)	(10,155)
(in 000s)	20	(271)	(262)	(148)	3,581	606	76	(724)	(2,332)	(14,286)	(13,489)
	25	(339)	(328)	(185)	4,475	757	95	(903)	(2,909)	(17,796)	(16,794)

2016											
Currency	Sensitivity of		Sensitivity of Equity								
	Decrease in bps	Net Interest Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
(In Thousand Pesos)											
PHP	-15	(P5,183)	P817	P172	(P5,635)	P2,153	P4,754	P365	P -	P -	P2,626
(in 000s)	-20	(6,910)	1,090	229	(7,516)	2,872	6,343	487	-	-	3,505
	-25	(8,638)	1,363	287	(9,399)	3,592	7,934	609	-	-	4,386
USD	-15	203	197	111	(2,693)	(456)	(57)	547	1,773	10,977	10,399
(in 000s)	-20	271	263	148	(3,592)	(608)	(76)	731	2,369	14,688	13,923
	-25	339	329	185	(4,491)	(760)	(96)	915	2,967	18,424	17,473

2015												
Currency	Increase in bps	Sensitivity of Net Interest Income	Sensitivity of Equity								10 Years Up	Total
			1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years			
(In Thousand Pesos)												
PHP (in 000s)	15	P6,231	(P741)	(P415)	P4,888	(P2,064)	(P5,702)	(P1,671)	(P365)	P -	(P6,070)	
	20	8,308	(988)	(553)	6,515	(2,750)	(7,597)	(2,225)	(485)	-	(8,083)	
	25	10,385	(1,235)	(691)	8,141	(3,436)	(9,489)	(2,778)	(605)	-	(10,093)	
USD (in 000s)	15	(1,581)	125	(425)	2,143	519	(98)	(497)	(1,684)	(6,256)	(6,173)	
	20	(2,108)	166	(567)	2,856	691	(130)	(661)	(2,241)	(8,313)	(8,199)	
	25	(2,636)	208	(708)	3,568	864	(163)	(826)	(2,795)	(10,356)	(10,208)	

2015												
Currency	Decrease in bps	Sensitivity of Net Interest Income	Sensitivity of Equity								10 Years Up	Total
			1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years			
(In Thousand Pesos)												
PHP	-15	(P6,231)	P742	P415	(P4,899)	P2,069	P5,726	P1,683	P369	P -	P6,105	
(in 000s)	-20	(8,308)	990	554	(6,534)	2,760	7,641	2,246	493	-	8,150	
	-25	(10,385)	1,238	693	(8,170)	3,452	9,558	2,811	617	-	10,199	
USD	-15	1,581	(125)	426	(2,147)	(520)	98	501	1,704	6,384	6,321	
(in 000s)	-20	2,108	(166)	568	(2,864)	(694)	131	669	2,276	8,541	8,461	
	-25	2,636	(208)	710	(3,582)	(868)	164	837	2,851	10,712	10,616	

The following table sets forth the repricing gap position of the Bank (in thousands):

2016						
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Loans and receivables:						
Cash and other cash items	P428,066	P -	P -	P -	P -	P428,066
Due from BSP	6,078,965	-	-	-	-	6,078,965
Due from other banks	2,129,328	-	-	-	-	2,129,328
Interbank loans receivable	2,157,292	-	-	-	-	2,157,292
Loans and discounts - gross	3,956,840	2,882,846	4,354,446	1,748,263	10,080,762	23,023,157
Other assets	1,788	1,941	1,472	1,447	23,944	30,592
Financial assets at FVPL:						
Government debt	-	7	374,400	205	43,906	418,518
Derivative assets	148,575	-	-	-	-	148,575
AFS investments	-	-	-	50,958	912,755	963,713
HTM investments	-	1,010	-	17,832	511,577	530,419
Total financial assets	14,900,854	2,885,804	4,730,318	1,818,705	11,572,944	35,908,625
Financial Liabilities						
Financial liabilities at FVPL - derivative liabilities	32,593	-	-	-	-	32,593
Other financial liabilities at amortized cost:						
Deposit liabilities:						
Demand	7,721,529	-	-	-	-	7,721,529
Savings	5,841,158	-	-	-	-	5,841,158
Time	7,060,959	4,181,156	1,487,384	595,325	79,575	13,404,399
Bills payable and outstanding acceptances	10,584	-	-	-	-	10,584
Manager's checks	52,177	-	-	-	-	52,177
Accrued interest and other expenses	347,175	-	-	-	-	347,175
Other liabilities	1,470,339	-	-	-	-	1,470,339
Total financial liabilities	22,536,514	4,181,156	1,487,384	595,325	79,575	28,879,954
Repricing Gap	(P7,635,660)	(P1,295,352)	P3,242,934	P1,223,380	P11,493,369	P7,028,671
Cumulative Repricing Gap	(P7,635,660)	(P8,931,012)	(P5,688,078)	(P4,464,698)	P7,028,671	P -

	2015					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
Financial Assets						
Loans and receivables:						
Cash and other cash items	P422,897	P -	P -	P -	P -	P422,897
Due from BSP	3,971,812	-	-	-	-	3,971,812
Due from other banks	1,653,114	-	-	-	-	1,653,114
Interbank loans receivable	1,719,376	-	-	-	-	1,719,376
Loans and discounts - gross	12,122,213	6,492,027	1,357,122	1,029,249	368,993	21,369,604
Other assets	3,190	396	1,911	4,796	19,355	29,648
Financial assets at FVPL:						
Government debt	-	-	-	-	121,996	121,996
Derivative assets	81,621	-	-	-	-	81,621
AFS investments	-	-	47,302	-	896,544	943,846
HTM investments	-	-	-	52,251	246,407	298,658
Total financial assets	19,974,223	6,492,423	1,406,335	1,086,296	1,653,295	30,612,572
Financial Liabilities						
Financial liabilities at FVPL - derivative liabilities	46,490	-	-	-	-	46,490
Other financial liabilities at amortized cost:						
Deposit liabilities:						
Demand	6,477,613	-	-	-	-	6,477,613
Savings	4,343,820	-	-	-	-	4,343,820
Time	3,466,834	3,395,894	871,212	671,295	96,806	8,502,041
Bills payable and outstanding acceptances	2,136,803	631,461	-	-	-	2,768,264
Manager's checks	38,368	-	-	-	-	38,368
Accrued interest and other expenses	297,798	-	-	-	-	297,798
Other liabilities	1,239,597	-	-	-	-	1,239,597
Total financial liabilities	18,047,323	4,027,355	871,212	671,295	96,806	23,713,991
Repricing Gap	P1,926,900	P2,465,068	P535,123	P415,001	P1,556,489	P6,898,581
Cumulative Repricing Gap	P1,926,900	P4,391,968	P4,927,091	P5,342,092	P6,898,581	P -

The following table sets forth, for the period indicated, the impact of the range of reasonably possible changes in the interest rates (accounting perspective) on the profit or loss and equity:

	Impact to Profit or Loss		Impact to Equity	
	2016	2015	2016	2015
PHP Interest Rates				
Increase by 15 bps	(P1,755,354)	(P1,100,365)	P -	(P439,169)
Increase by 20 bps	(2,337,601)	229,078	-	(584,546)
Increase by 25 bps	(2,918,421)	286,348	-	(729,418)
Decrease by 15 bps	1,768,377	1,117,937	-	443,771
Decrease by 20 bps	2,360,754	(229,078)	-	592,726
Decrease by 25 bps	2,954,598	(286,348)	-	742,200
USD Interest Rates				
Increase by 15 bps	(71,058)	(171,809)	(21,557,892)	(17,217,578)
Increase by 20 bps	(3,138)	(10,709)	(28,609,522)	(1,809,750)
Increase by 25 bps	(3,923)	(13,386)	(35,595,202)	(2,251,075)
Decrease by 15 bps	(2,354)	(8,031)	22,178,098	17,683,290
Decrease by 20 bps	(3,138)	(10,709)	29,712,195	1,883,318
Decrease by 25 bps	(3,923)	(13,386)	37,318,297	2,366,038

The Bank has exposures to other currencies that are not material.

The following table provides for the average effective interest rates by period of maturity or repricing of the Bank:

	2016		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated			
Financial Assets			
Due from BSP	0.4%	-	-
Due from other banks	0.2%	-	-
Interbank loans receivable	5.2%	-	-
Loans and receivables	4.5%	5.4%	11.3%
Financial assets at FVPL	2.4%	6.7%	3.1%
AFS investments	-	-	4.9%
HTM investments	-	2.9%	2.4%
Financial Liabilities			
Deposit liabilities	0.5%	1.1%	1.3%
Foreign Currency-denominated			
Financial Assets			
Due from other banks	0.1%	-	-
Interbank loans receivable	0.6%	-	-
Loans and receivables	3.0%	2.9%	1.9%
Financial assets at FVPL	-	-	2.6%
AFS investments	5.2%	5.4%	3.0%
HTM investments	-	-	4.1%
Financial Liabilities			
Deposit liabilities	0.3%	1.4%	1.2%
2015			
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated			
Financial Assets			
Due from BSP	0.5%	-	-
Due from other banks	0.2%	-	-
Interbank loans receivable	2.5%	-	-
Loans and receivables	4.5%	4.8%	12.5%
Financial assets at FVPL	3.4%	-	3.7%
AFS investments	-	-	9.5%
HTM investments	-	7.4%	1.1%
Financial Liabilities			
Deposit liabilities	0.4%	1.2%	1.1%
Foreign Currency-denominated			
Financial Assets			
Due from other banks	-	-	-
Interbank loans receivable	0.3%	-	-
Loans and receivables	3.4%	2.9%	2.1%
Financial assets at FVPL	-	-	3.0%
AFS investments	3.9%	3.8%	2.8%
HTM investments	-	-	4.1%
Financial Liabilities			
Deposit liabilities	0.4%	1.1%	1.3%

Prepayment Risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Bank has exposures in consumer, e.g., salary loans, mortgage loans. These activities generate market risk since these loan products are inherently sensitive to changes in the level of market interest rates.

The impact on the Bank's profitability of mortgage loan prepayment risk is deemed negligible as actual prepayments were small relative to the loan portfolio.

Equity Price Risk

Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the levels of equity indices and the value of individual stocks (whether traded or not). The Bank has no significant exposure to equity price risk.

Operational Risk

Operational risk is defined as the risk of loss arising from direct or indirect loss from inadequate or failed internal processes, people, and systems; or from external events. The Direct Loss results primarily from an operational failure while the Indirect Loss relates to the impact of operational risk on other business units.

The Operational and Reputational Risk Management is responsible for establishing, overseeing and supporting the Bank's Operational Risk Management (ORM) framework, achieved through:

- Development of policies and procedures;
- Providing guidance, support and advice in the identification, management and control of operational risks;
- Providing training of ORM practices and processes, and support the building of an appropriate risk management culture;
- Ensure that the Bank meets Regulatory and Parent Bank's ORM requirements and the timely roll-out of Operational risk initiatives; and
- Objective and critical monitoring and reporting of Operational Risk activities, risk profiles and risk mitigation.

Operational Risk Process

To ensure that all operational risks of the different Business and Functional Units are reported and properly managed, the Bank promotes the Operational Risk Process Cycle to have a periodic risk process assessment.

The Bank requires all operating units, on a monthly basis, to formulate and use key risk indicators which represent standard measures that would indicate effectiveness operational risk management activities.

The Bank's Operational Risk Process is as follows:

Key Risk and Control Identification Process

This involves the review of existing business processes, products and services with the aim of identifying vulnerabilities and assessing the extent of damage that can happen should breaches occur.

The Bank uses RCSA and Key Risk Indicator (KRI) as important tools in the identification, accessing and monitoring of operational risk. Also it established appropriate KRI items and alert levels to track operational risk exposure over time and act as early warning signals in the prevention of risk event.

Review and Document Policies and Procedures

In reviewing and documenting policies and procedures, each business and operating unit shall ensure clear and complete documentation of the following:

- Processes - Include all functions that are being done to ensure complete delivery of the transaction. This covers both client interface processes and internal control.
- People - Identify everyone involved in the process, their duties and responsibilities and required competencies.
- Reports - Identify those that would be needed to assess risk management effectiveness.
- Methodologies - Detail the tools and activities that would support decision making for critical areas of the process.
- Systems and Data - Cite the system and data requirement for the business unit to efficiently manage reports and methodologies employed.

All Business and Operating Units shall ensure that actual practices are consistent with documented policies and procedures (P and P).

Monitor and Formulate Action Plan

Monitoring and formulating action plans against established standards, via the KRIs is an important component in ensuring that these standards are met. There are three units involved in the over-all formulation and monitoring of action plans for all Business and Functional Units.

- Business and Functional Units - They are expected to report the operational exceptions, deviations on the policies and procedures and deficiencies on the documentations and process.
- ORRMD - Collates and consolidates the reports from different business and functional units. They are also responsible for monitoring, analyzing and reporting operational risk losses and exposures to Management.
- Internal Audit Department (IAD) - Primarily responsible for ensuring that all Operations Units are in compliance with the set of policies and procedures (P and P). They should be able to provide an independent opinion on the effectiveness of established internal controls.

Management Oversight

On a monthly basis, the Operations Committee convenes to discuss operational risk issues. This is presided by the President with the following members: Chief Risk Officer, Operational and Reputational Risk Management Head, Information Security Officer, and Heads of ICMG, RCMG, Institutional Banking Group, Retail Banking Group, Trust Department, Finance and Corporate Affairs Group, Information Technology Group, Banking Operations Group, Human Resources and Administration Group, Internal Audit and Compliance.

Strategic Risk

Strategic risk is the risk that the current and prospective earnings or capital will be adversely impacted because of business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This definition gives importance to business planning, where business decisions and its implementation are derived from.

The strategic risk of the Bank is a function of the compatibility of its strategic goals, the quality of carrying out its implementation, and building the infrastructure to meet such goals.

Strategic risk is managed throughout the Bank and is primarily monitored by Finance and Corporate Affairs Unit through budget analysis and variances.

Legal Risk

Legal risks belong to non-quantifiable risks that are not subject to specific numerical measurements but likewise require similar management attention. While unpredictable, non-quantifiable risks may cause severe impact of the Bank's statements of income. These risks are mitigated by developing a strong control culture, an organizational structure that is risk-aware, and an effective internal control system that continually monitors and updates processes and procedures. Legal risks include the potential for the Bank to suffer a financial loss due to non-existent, incomplete, incorrect and/or unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. This risk is closely related to credit risk as it most often involves legal problems with counterparties to the Bank's transactions. It is also closely related to other non-quantifiable risks that have to be assessed: fiduciary, reputational risk and regulatory risk.

A legal review process is the primary control mechanism for legal risks and shall be part of every product program or process of the Bank. The review aims to validate the existence, propriety and enforceability of documents, and verify the capacity and authority of counterparties and customers to enter into transactions.

The Bank's Legal Department is the primary unit assigned to identify, assess, manage and monitor the Bank's legal risk.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains a strong credit standing and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank considers its paid-in capital and retained earnings as its core economic capital.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of Regulatory Accounting Principles (RAP) which differ from PFRSs in some respects.

The BSP sets and monitors compliance with minimum capital requirements for the Bank. In implementing current capital requirements, BSP issued Circular 781 which implemented the Revised Risk-Based Capital Adequacy Framework under Basel III effective January 1, 2014. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk-weighted assets) of not less than 10.0%. The Bank is also required to maintain a minimum Common Equity Tier 1 and Tier 1 capital ratio of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5% comprised of CET1 capital, shall likewise be imposed.

Shown below are the Bank's minimum capital-to-risk assets ratios as reported to the BSP as of December 31, 2016 and 2015 (in millions except for percentages).

	2016	2015
Tier 1 capital	P6,661	P6,612
Tier 2 capital	266	231
Gross qualifying capital	6,927	6,843
Less: Required deductions	-	-
Total Qualifying Capital	P6,927	P6,843
Risk-weighted Assets	P30,718	P28,146
Tier 1 capital ratio	21.7%	23.5%
Tier 2 capital ratio	0.8%	0.8%
Risk-based capital adequacy ratio	22.5%	24.3%

The regulatory qualifying capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprise of common stock, additional paid-in capital and surplus. Tier 2 comprise upper Tier 2 and lower Tier 2. Upper Tier 2 consists of preferred stock, revaluation increment reserve, general loan loss provision, and deposit for common stock subscription. Lower Tier 2 consists of unsecured subordinated debt.

BSP Circular 560 dated January 31, 2007, which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

BASEL III

On December 13, 2013, the BSP issued Circular 822 on amendments to the capital framework of foreign bank. It provides that the minimum capital required for locally incorporated subsidiaries of foreign banks shall be the same as that prescribed by the Monetary Board for domestic banks of the same category under Circular 781 issued last January 15, 2013.

The following are the revised minimum capital requirements:

- 6.0% Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs);
- 7.5% Tier 1 Capital/RWAs; and
- 10.0% Total Qualifying Capital (Tier 1 plus Tier 2)/RWAs.

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1-'going concern' [CET1 plus Additional Tier 1] and Tier 2 - 'gone concern'. A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer of 2.5% of RWAs, comprised of CET1 capital, has been required. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in below table. Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.5% (CET Ratio of 6.0% plus conservation buffer of 2.5%) and has not complied with the minimum 10.0% CAR.

Level of CET 1 capital	Restriction on Distributions
<6.0%	No distribution
6.0% - 7.2%	No distribution until more than 7.2% CET1 capital is met
>7.2% - 8.5%	50.0% of earnings may be distributed
>8.5%	No restriction on the distribution

Circular 822 takes effect on January 1, 2014. All foreign bank branches shall conduct capital assessment to determine compliance with the new capital requirements.

6. Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair value of the financial assets and financial liabilities are:

Cash and Other Cash Items, Due from BSP and Other Banks

Carrying amounts approximate fair values due to their short-term nature.

Debt Securities

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

Equity Securities

No fair value disclosures are provided for unquoted equity investments amounting to P12.8 million (2015: P12.7 million) that are measured at their carrying amounts (cost less allowance for impairment losses) due to the unpredictable nature of future cash flows and lack of suitable methods of arriving at reliable fair value. These are investments in club shares and interests in Bancnet and Philippine Clearing House. The Bank does not intend to dispose these investments.

Derivative Instruments

Derivative products are valued using valuation techniques with market observable inputs including foreign exchange rates and interest rate curves prevailing at the statements of financial position date. For cross-currency swaps and foreign exchange contracts, discounted cash flow model is applied. This valuation method discounts each cash flow of the derivatives at a rate that is dependent on the tenor of the cash flow.

Loans and Receivables

Fair values of loans subject to periodic interest repricing of more than one year are estimated based on the discounted cash flow methodology using the loan's latest interest rate. Carrying values of loans subject to periodic interest repricing of one year or less approximate fair value because of recent and regular repricing based on market conditions.

Deposit Liabilities

Carrying amounts of demand and savings deposit approximate fair values considering that these are currently due and demandable. Fair values of time deposits are estimated based on discounted cash flow methodology using the Bank's latest interest rates.

Other Financial Liabilities

Carrying values of liabilities, other than deposit liabilities approximates fair values due to their short-term nature.

The following table presents a comparison of the carrying amounts and fair values of all of the Bank's financial assets and liabilities.

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and other cash items	P428,066,149	P428,066,149	P422,896,718	P422,896,718
Due from BSP	6,078,965,189	6,078,965,189	3,971,812,074	3,971,812,074
Due from other banks	2,129,327,639	2,129,327,639	1,653,114,081	1,653,114,081
Interbank loans receivable	2,157,292,749	2,157,292,749	1,719,375,675	1,719,375,675
Loans and discounts - net:				
Institutional banking	15,641,527,582	15,641,527,582	14,334,702,040	14,334,702,040
Retail banking	3,394,184,070	3,151,392,778	3,242,434,839	2,215,075,480
Mortgage banking	1,976,543,106	1,816,349,337	1,946,786,345	1,811,495,109
Small business loans	1,082,602,589	1,082,602,589	902,084,181	902,084,181
Accrued interest receivable	125,052,205	125,052,205	130,048,775	130,048,775
Other receivables	233,355,991	233,355,991	241,355,832	241,355,832
Unquoted debt securities	42,139,298	42,139,298	102,740,220	102,740,220
Other assets	30,592,371	30,592,371	29,648,416	29,648,416
Subtotal	33,319,648,938	32,916,663,877	28,696,999,196	27,534,348,601
Financial assets at FVPL:				
Held-for-trading:				
Government debt	418,517,681	418,517,681	121,995,480	121,995,480
Derivative assets	148,575,404	148,575,404	81,621,381	81,621,381
Subtotal	567,093,085	567,093,085	203,616,861	203,616,861
AFS investments:				
Government debt	950,872,626	950,872,626	931,125,061	931,125,061
Unquoted equity securities	12,840,817	12,840,817	12,720,817	12,720,817
Subtotal	963,713,443	963,713,443	943,845,878	943,845,878
HTM investments:				
Government debt	530,419,396	541,390,635	298,657,799	311,264,841
	35,380,874,862	34,988,861,040	30,143,119,734	28,993,076,181
Financial Liabilities				
Financial liabilities at FVPL:				
Derivative liabilities	32,592,767	32,592,767	46,490,152	46,490,152
Other financial liabilities at amortized cost :				
Deposit liabilities:				
Demand	7,721,529,036	7,721,529,036	6,477,612,793	6,477,612,793
Savings	5,841,157,648	5,841,157,648	4,343,820,023	4,343,820,023
Time	13,404,399,536	13,404,399,536	8,502,041,246	8,502,041,246
Subtotal	26,999,678,987	26,999,678,987	19,369,964,214	19,369,964,214
Bills payable	-	-	2,749,161,040	2,749,161,040
Outstanding acceptances	10,584,111	10,584,111	19,103,220	19,103,220
Manager's checks	52,176,964	52,176,964	38,368,497	38,368,497
Accrued interest and other expenses	347,174,861	347,174,861	297,797,829	297,797,829
Other liabilities	1,470,338,926	1,470,338,926	1,239,597,205	1,239,597,205
	P28,879,953,849	P28,879,953,849	P23,713,992,005	P23,713,992,005

Due from BSP includes lending to the Bangko Sentral ng Pilipinas (BSP) under reverse repurchase agreement amounting to nil as of December 31, 2016 and 2015.

The following ranges of discount rates were used in estimating the fair values of unquoted fixed-rate and floating-rate debt instruments:

	2016			
	USD		PHP	
	High	Low	High	Low
Unquoted debt securities	-	-	-	-
Loans and discounts:				
Retail banking	-	-	6.08%	3.44%
Mortgage banking	-	-	8.75%	4.99%
Small business loans	-	-	-	-
Deposit liabilities - time	-	-	-	-

	2015			
	USD		PHP	
	High	Low	High	Low
Unquoted debt securities	-	-	-	-
Loans and discounts:				
Retail banking	-	-	6.2%	5.0%
Mortgage banking	-	-	11.5%	5.0%
Small business loans	-	-	-	-
Deposit liabilities - time	-	-	-	-

The following table shows financial instruments recognized at fair value, analyzed by bases of fair value (in thousands):

- Level 1 - quoted market prices in active markets for identical assets or liabilities; when fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.
- Level 2 - those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); for all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models; and
- Level 3 - those with inputs for the asset or liability that are not based on observable market data (unobservable inputs). Instruments included in Level 3 are those for which there are currently no active market.

	2016			
	Level 1	Level 2	Level 3	Total
Financial Assets at FVPL				
Government debt	P418,518	P -	P -	P418,518
Derivative assets	-	148,575	-	148,575
AFS Investments				
Government debt	950,873	-	-	950,873
Clubshares	-	400	-	400
	P1,369,391	P148,975	P -	P1,518,366
Financial Liabilities at FVPL				
Derivative liabilities	P -	P32,593	P -	P32,593

	2015			
	Level 1	Level 2	Level 3	Total
Financial Assets at FVPL				
Government debt	P121,995	P -	P -	P121,995
Derivative assets	-	81,621	-	81,621
AFS Investments				
Government debt	931,125	-	-	931,125
Clubshares	-	280	-	280
	P1,053,120	P81,901	P -	P1,135,021
Financial Liabilities at FVPL				
Derivative liabilities	P -	P46,490	P -	P46,490

The fair values of Level 2 instruments are based on broker quotes from similar contracts that are traded in an active market. These quotes reflect the actual transactions in similar instruments.

During 2016 and 2015, there were no transfers between Level 1 to Level 2 category and no transfers into and out of Level 3 fair value measurements.

7. Trading and Investment Securities

Financial Assets at FVPL

Financial assets at FVPL consist of the following:

	Note	2016	2015
Held-for-Trading			
Government debt securities		P418,517,681	P121,995,480
Derivative assets	27	148,575,404	81,621,381
		P567,093,085	P203,616,861

Net unrealized gain (loss) in 2016 and 2015 on revaluation to market of financial assets at FVPL amounting to P0.1 million and P13.5 million, respectively, are included under "Trading and securities gain - net" in the statements of income.

AFS Investments

AFS investments consist of the following:

	2016	2015
AFS Investments		
Government debt securities	P950,872,626	P931,125,061
Unquoted equity securities	12,840,817	12,720,817
	P963,713,443	P943,845,878

Unquoted equity securities include investments in BANCNET, Philippine Clearing House Corporation, Banker's Association of the Philippines preferred shares and club shares from Orchard Golf and Country Club and Subic Bay Yacht Club Corporation.

The movements of net unrealized gain (loss) on AFS investments are as follows:

	2016	2015
Balance at beginning of year	(P23,814,176)	(P5,958,965)
Unrealized losses recognized in other comprehensive income	(46,279,682)	(30,850,962)
Amount realized in the statements of income	41,167,374	12,995,751
Balance at end of year	(P28,926,484)	(P23,814,176)

In 2016 and 2015, the effective interest rates of Philippine government securities range from 2.0% to 6.7% and 1.9% to 6.7%, respectively.

In 2016, effective interest rates range from 2.4% to 4.2% (2015: 2.4% to 4.2%) for foreign currency-denominated AFS investments. As at December 31, 2016, there were no outstanding peso-denominated AFS investments (2015: 2.4% to 4.2%).

HTM Investments

HTM investments consist of Philippine government treasury notes that bear nominal annual interest rates ranging from 3.7% to 10.6% and from 2.0% to 6.7% in 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the carrying value of HTM investments amounted to P530.4 million and P298.7 million, respectively.

Interest income on trading and investment securities consists of:

	2016	2015
Financial assets at FVPL	P19,021,825	P22,754,273
AFS investments	18,294,166	33,364,299
HTM investments	11,789,597	11,230,827
	P49,105,588	P67,349,399

Trading and securities gain - net consists of:

	2016	2015
Financial assets at FVPL	P151,701,798	P22,497,100
AFS investments	41,167,374	12,995,751
	P192,869,172	P35,492,851

Net gain on derivative transactions amounting to P15.8 million and P8.0 million in 2016 and 2015, respectively, are included under "Foreign exchange gain (loss) - net" in the statements of income.

8. Loans and Receivables - net

This account consists of:

	Note	2016	2015
Loans and discounts:			
Institutional banking		P15,849,682,219	P14,436,190,112
Retail banking		3,639,375,551	3,510,698,442
Mortgage banking		1,984,231,674	1,979,093,461
Small business loans		1,082,602,589	902,084,181
Accrued interest receivable		134,399,039	138,745,585
Other receivables		290,386,038	297,907,226
		22,980,677,110	21,264,719,007
Unquoted debt securities		42,479,875	104,885,210
		23,023,156,985	21,369,604,217
Unearned interest discount and capitalized interest		(4,637,913)	(4,444,478)
		23,018,519,072	21,365,159,739
Allowance for impairment and credit losses	12	(523,114,231)	(465,007,507)
		P22,495,404,841	P20,900,152,232

Institutional loans and Small Business loans include domestic bills purchased amounting to P470.5 million and P202.2 million as of December 31, 2016 and 2015, respectively (see Note 16).

Other receivables include due from Integrated Credit and Corporate Services (ICCS) and Philippine Veterans Bank (PVB) representing impaired loans amounting to P189.0 million and P200.9 million as of December 31, 2016 and 2015, respectively, which are secured by real properties transferred to ICCS and PVB.

Other receivables also include sales contract receivables amounting to P21.0 million and P32.6 million as of December 31, 2016 and 2015, respectively, which bear fixed interest rates per annum ranging from 8.0% to 12.0% in 2016 and 2015.

Unquoted debt securities represent government bonds not quoted in an active market. These investments are classified as loans and receivables in accordance with PAS 39.

Interest income on loans and receivables consists of:

	2016	2015
Retail banking	P893,875,173	P925,480,943
Institutional banking	613,124,252	536,486,121
Mortgage banking	153,999,150	122,453,108
Small business loans	4,733,756	29,210,099
Unquoted debt securities	3,420,817	4,982,931
Other receivables	2,883,775	2,787,344
	P1,672,036,923	P1,621,400,546

The effective interest rates of Loans and discounts, Unquoted debt securities and Sales contract receivables range from 2.7% to 3.6% in 2016 and from 2.8% to 3.5% in 2015 for foreign currency-denominated receivables and from 8.7% to 10.1% in 2016 and from 10.1% to 11.7% in 2015 for peso-denominated receivables.

The Bank's loan portfolio includes non-risk loans, as defined under BSP regulations, totaling P1.2 billion and P765.3 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, 16.8% of the total loans of the Bank are subject to periodic interest repricing (2015: 16.4%). Remaining loans earn annual fixed interest rates ranging from 1.0% to 38.9% in 2016 and from 1.2% to 40.7% in 2015 for peso-denominated loans and from 1.9% to 5.8% for 2016 and 2015 foreign currency-denominated loans.

There is no interest income accrued on loans and receivables which includes unwinding of the allowance for impairment and credit losses as of December 31, 2016 and 2015.

9. Property and Equipment - net

The composition and movements of this account are as follows:

	2016					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	P74,521,460	P184,965,392	P99,332,887	P85,250,794	P344,248,259	P788,318,792
Additions	82,795	38,191,009	21,462,735	5,190,702	4,557,083	69,484,324
Disposals	-	(6,190,962)	(14,780,073)	(2,406,072)	(423,926)	(23,801,033)
Balance at end of year	74,604,255	216,965,439	106,015,549	88,035,424	348,381,416	834,002,083
Accumulated Depreciation and Amortization						
Balance at beginning of year	38,688,426	164,747,906	42,449,965	83,021,635	335,963,397	664,871,329
Depreciation and amortization	3,180,743	16,579,132	18,478,256	1,545,520	5,202,438	44,986,089
Disposals	-	(6,190,855)	(11,091,216)	(2,375,883)	(415,328)	(20,073,282)
Balance at end of year	41,869,169	175,136,183	49,837,005	82,191,272	340,750,507	689,784,136
Net Book Value at End of Year	P32,735,086	P41,829,256	P56,178,544	P5,844,152	P7,630,909	P144,217,947

	2015					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	P74,521,460	P172,349,652	P81,764,313	P82,024,390	P343,617,016	P754,276,831
Additions	-	12,784,644	33,223,469	4,946,898	631,243	51,586,254
Disposals	-	(168,904)	(15,654,895)	(1,720,494)	-	(17,544,293)
Balance at end of year	74,521,460	184,965,392	99,332,887	85,250,794	344,248,259	788,318,792
Accumulated Depreciation and Amortization						
Balance at beginning of year	35,509,609	152,705,370	38,195,171	76,324,928	319,399,804	622,134,882
Depreciation and amortization	3,178,817	12,211,434	17,149,250	7,360,358	16,563,593	56,463,452
Disposals	-	(168,898)	(12,894,456)	(663,651)	-	(13,727,005)
Balance at end of year	38,688,426	164,747,906	42,449,965	83,021,635	335,963,397	664,871,329
Net Book Value at End of Year	P35,833,034	P20,217,486	P56,882,922	P2,229,159	P8,284,862	P123,447,463

10. Investment Properties - net

The Bank's investment properties consist of condominium units. Movements in this account in 2016 and 2015 follow:

	2016	2015
Cost		
Balance at beginning of year	P18,937,641	P18,937,641
Additions	66,068,148	-
Transfers	13,463,200	-
Disposals	(1,767,143)	-
Balance at end of year	96,701,846	18,937,641
Accumulated Depreciation		
Balance at beginning of year	1,262,263	843,466
Depreciation	1,723,495	418,797
Transfers	77,246	-
Disposals	(115,561)	-
Balance at end of year	2,947,443	1,262,263
Allowance for Impairment Losses		
Balance at beginning of year	105,184	184,649
Reversal of allowance for impairment loss	(79,464)	(79,465)
Balance at end of year	25,720	105,184
Net Book Value at End of Year	P93,728,683	P17,570,194

The Bank does not occupy repossessed properties for business use.

The aggregate fair value of the investment properties of the Bank amounted to P96.2 million and P18.9 million as of December 31, 2016 and 2015, respectively. The fair value of the Bank's investment properties has been arrived at on the basis of recent sales of similar properties in the same areas and taking into account the economic conditions prevailing at the time the valuations were made. Fair value of investment properties is categorized under level 2 of the fair value hierarchy.

11. Other Assets

This account consists of:

	Note	2016	2015
Computer software costs - net		P66,103,449	P96,583,647
Prepaid expenses and other charges		48,356,540	25,719,833
Net pension asset	19	36,682,763	25,101,870
Rental deposit		30,486,553	29,206,766
Returned checks and other cash items		105,818	441,650
Miscellaneous		187,605,721	126,027,861
		P369,340,844	P303,081,627

Miscellaneous assets include software items under installation process, documentary stamps on hand, and stationery and office supplies. As of December 31, 2016 and 2015, hardware and software items under installation process amounted to P159.0 million and P102.0 million, respectively.

The movements in computer software costs follow:

	2016	2015
Cost		
Balance at beginning of year	P448,468,757	P399,810,918
Additions	6,173,645	48,733,389
Disposals	(466,800)	(75,550)
Balance at end of year	454,175,602	448,468,757
Accumulated Amortization		
Balance at beginning of year	351,885,110	319,880,770
Amortization	36,243,178	32,079,888
Disposals	(56,135)	(75,548)
Balance at end of year	388,072,153	351,885,110
	P66,103,449	P96,583,647

12. Allowance for Impairment and Credit Losses

Movements in the allowance for credit losses on loans and receivables follow:

	2016					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	P98,797,688	P32,090,880	P -	P268,263,603	P65,855,336	P465,007,507
Provisions for (recoveries of) credit losses	104,947,814	(24,446,293)	-	140,951,523	12,572,737	234,025,781
Accounts charged off and others	155,780	-	-	(164,023,645)	(12,051,192)	(175,919,057)
Balance at end of year	P203,901,282	P7,644,587	P -	P245,191,481	P66,376,881	P523,114,231

	2015					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	P72,357,847	P26,883,012	P -	P291,066,945	P124,233,443	P514,541,247
Provisions for credit losses	84,004,521	5,207,868	-	164,761,805	11,996,476	265,970,670
Accounts charged off and others	(57,564,680)	-	-	(187,565,147)	(70,374,583)	(315,504,410)
Balance at end of year	P98,797,688	P32,090,880	P -	P268,263,603	P65,855,336	P465,007,507

Impairment Assessment

The Bank recognizes impairment losses based on specific (individual) and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Bank in assessing and measuring impairment include:

a. Specific (Individual) Assessment

The Bank assesses each individually significant credit exposure or advances for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment.

The Bank uses the incurred loss method when recognizing loss on impaired financial asset, consistent with the requirement of PAS 39. Impairment is identified when an objective evidence of a specific loss event has been observed. Observable data that will trigger an impairment may include any of the following: (a) significant financial difficulty of the issuer or obligor, (b) default or delinquency in interest or principal payments, (c) probability that the borrower may enter into bankruptcy or other financial reorganization, (d) disappearance of an active market for that asset because of financial difficulties, (e) and other factors that may result to losses. In general, but not limited to, loans that are adversely classified, past due, items in litigation, and restructured, are also subjected to impairment. The impairment of the account is calculated by the comparison of the discounted estimated future cash flows against the carrying value of the loan. If the sum of all discounted estimated future cash flows is less than the carrying value of the asset, then the asset would have to be written down to its total discounted future cash flows.

Nevertheless, if the impaired account is found to be not specifically impaired, then it will collectively be assessed for impairment according to its risk grouping. The impairment allowances, if any, are evaluated semi-annually or as the need arise in view of favorable or unfavorable developments.

b. Collective Assessment

Impaired loans that are not individually assessed for impairment and loans which are individually assessed for impairment but not found to be impaired, shall be included in a relevant portfolio for collective impairment testing. The collective impairment is prepared using the historical loss rates approach for mortgage loans and institutional loans and the net flow rate methodology for personal loans. A monthly portfolio review is performed to determine the appropriate allowances.

For the mortgage and institutional loans, the historical loss rates are calculated by economic industry, which is the average ratio of the loss reserves applied against the outstanding loans with a minimum of three-year period.

For personal loans, the Bank used net flow rate methodology which considers the historical movements of loan accounts to compute for probable future losses.

With the foregoing level of allowance for impairment and credit losses, management believes that the Bank has sufficient allowance to cover any losses that it may incur from the noncollection or nonrealization of its loans and receivables and other risk assets.

The breakdown of provision for credit losses is as follows:

	2016		Total
	Specific Impairment	Collective Impairment	
Loan and discounts	P80,600,500	P140,852,545	P221,453,045
Other receivables	10,128,690	2,444,046	12,572,736
Total	P90,729,190	P143,296,591	P234,025,781

	2015		Total
	Specific Impairment	Collective Impairment	
Loan and discounts	P98,008,004	P155,966,190	P253,974,194
Other receivables	219,972	11,776,504	11,996,476
Total	P97,227,976	P167,742,694	P265,970,670

BSP Reporting

Loan provisioning under BSP regulations hinges on the qualitative appraisal and classification of the loan. Aside from classifying loans to past due and current, these are also grouped as unclassified or classified.

These classified loans are further grouped depending on the likelihood of losses the Bank will incur. A specific percentage of outstanding balance of the loan based on its classification is set up as allowance for probable losses. The list of classifications and allowance for losses percentage include: (a) Especially mentioned (5.0%), (b) Substandard - secured (10.0%) and - unsecured (25.0%), (c) Doubtful (50.0%), (d) Loss (100%). Definitions of each classification are as follows:

- I. Especially Mentioned - These are loans or portions thereof where there is an evidence of weakness in the borrower's financial condition or creditworthiness, or which are subject to an unrealistic repayment program or inadequate source of funds or where there is a lack of adequate collateral, credit, information or documentation.
- II. Substandard - These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. The normal repayment of these loans may be in jeopardy by reason of severely adverse trends or development of a financial, managerial, economic or political nature or important weakness in collateral/security position. Prompt corrective action is required to strengthen the Bank's position or to reduce its exposure and to assure that adequate remedial measures are taken by the borrower.
- III. Doubtful - These are loans or portions thereof the full liquidation of which, on the basis of available information, appears questionable and suggests a degree of eventual loss may be incurred but not yet determinable as to the amount. Positive and vigorous action is required to avert or minimize loss. Non-accrual of interest is mandatory, however, memorandum tracking of interest due must be maintained. Reserves are required to be considered.

IV. Loss - These are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted, notwithstanding the fact that the loans may have some recovery or salvage value. The amount of loan recovery is difficult to measure and it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be obtained in the future.

In addition to the allowance for probable losses on classified loans, BSP requires a general provision to be set up on unclassified loans considered as non-risk under existing guidelines, as follows: five percent (5.0%) allowance on the restructured loans that are unclassified and one percent (1.0%) general loan loss provision on all other unclassified loans.

Current bank regulations allow banks who have complied with the valuation reserve and capital adjustment requirements by the BSP to exclude those loans that are fully provided with allowance for credit losses, provided that interest on said loans shall not be accrued, from NPL classification. Accordingly, NPLs not fully covered by allowance credit losses are as follows:

	2016	2015
NPLs	P460,786,691	P355,373,543
Less NPLs fully provided with allowance for credit losses	290,378,738	167,197,356
	P170,407,953	P188,176,187

13. Deposit Liabilities

As of December 31, 2016, there are no deposit liabilities of the Bank that are subject to periodic interest repricing, while 2.4% (2015: 3.2%), of the total deposits are noninterest-bearing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.1% to 1.3% in 2016 and 2015.

On March 29, 2012, the BSP issued Circular No. 753, which contains the rules and regulations for the unification of the statutory and liquidity reserve requirements effective on the reserve week starting on April 6, 2012. Circular No. 753, among others:

- Unification of the statutory and liquidity reserve requirements, from 11.0% and 10.0%, respectively, to 18.0%;
- Required reserves shall be kept in the form of deposits placed in banks' Demand Deposit Accounts with the BSP;
- Exclusion of cash in vault and demand deposits as eligible form of reserve requirement compliance;
- Government securities which are used as compliance with the regular and/or liquidity reserve requirements shall continue to be eligible until they mature;
- Discontinuance of Reserve Deposit Account facility beginning April 6, 2012; and
- Deposits maintained with the BSP in compliance with the reserve requirement no longer bear interest.

On April 3, 2014, the BSP issued Circular No. 830, which provides that all local currency deposits and deposit substitute liabilities of the Bank are subject to reserve requirements of 19.0% effective on the reserve week starting on April 11, 2014.

On May 27, 2014, the BSP issued Circular No. 832 which increased the reserve requirement to 20.0% effective on the reserve week starting on May 30, 2014.

In 2016 and 2015, the Bank is in compliance with such reserve requirements regulations.

The total liquidity and statutory reserves, as reported to the BSP, are as follows:

	2016	2015
Due from BSP	P4,179,298,231	P2,998,660,481
	P4,179,298,231	P2,998,660,481

Interest expense on deposit liabilities consists of:

	2016	2015
Time	P119,305,222	P111,160,808
Demand	14,904,403	10,477,578
Savings	14,555,868	10,683,141
	P148,765,493	P132,321,527

14. Bills Payable

This account consists of short-term borrowings from banks and other financial institutions.

The Bank is an accredited Participating Financial Institution, as a conduit bank for Official Development Assistance Wholesale Lending Facilities managed by various government or sovereign lending institutions.

Foreign currency denominated interbank borrowings are subject to annual fixed interest rates ranging from 1.0% to 3.8% in 2016 and from 1.0% to 3.8% in 2015.

Interest expense on bills payable amounted to P7.9 million and P26.4 million in 2016 and 2015, respectively.

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2016	2015
Accrued taxes and other expenses	P340,008,008	P292,774,533
Accrued interest payable	19,695,752	16,893,871
	P359,703,760	P309,668,404

Accrued taxes and other expenses refer to various payables for taxes and licenses, payroll, utilities and other expenses.

16. Other Liabilities

This account consists of:

	Note	2016	2015
Accounts payable		P996,433,324	P1,036,464,773
Bills purchased - contra	8	470,464,650	202,203,831
Withholding taxes payable		27,882,907	22,034,502
Payment order payable		3,440,952	928,602
Miscellaneous		14,233,891	22,080,585
		P1,512,455,724	P1,283,712,293

The majority of the accounts payable as at year-end represent monies to be credited to customer deposit accounts for payroll and inward remittances and amounts owed to government agencies for statutory deductions and taxes and other creditors for normal expenditures. These are non-interest bearing and are payable on demand.

Bills purchased account is a contra-account to domestic bills purchase transactions recorded as part of Loans and receivables account. This represent accommodations given to Bank customers with approved bills purchase line of credit which enables the customer to encash checks with one day clearing instead of the usual three days clearing time.

17. Maturity Analysis of Assets and Liabilities

The following tables present the assets and liabilities as of December 31, 2016 and 2015 analyzed according to when they are expected to be recovered or settled as of the reporting date (in thousands):

	2016			2015		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Loans and receivables						
Cash and other cash items	P428,066	P -	P428,066	P422,897	P -	P422,897
Due from BSP	6,078,965	-	6,078,965	3,971,812	-	3,971,812
Due from other banks	2,129,328	-	2,129,328	1,653,114	-	1,653,114
Interbank loans receivable	2,157,292	-	2,157,292	1,719,376	-	1,719,376
Loans and receivables - gross	12,942,395	10,080,762	23,023,157	10,015,116	11,354,488	21,369,604
Other assets*	6,648	23,944	30,592	10,294	19,354	29,648
Subtotal	23,742,694	10,104,706	33,847,400	17,792,609	11,373,842	29,166,451
Financial assets at FVPL	523,187	43,906	567,093	81,621	121,996	203,617
AFS investments	50,958	912,755	963,713	47,302	896,544	943,846
HTM investments	18,842	511,577	530,419	52,251	246,407	298,658
	24,335,680	11,572,945	35,908,625	17,973,783	12,638,789	30,612,572
Nonfinancial Assets						
Property and equipment	-	144,218	144,218	-	123,447	123,447
Investment properties - net	-	93,729	93,729	-	17,570	17,570
Deferred tax assets - net	-	106,184	106,184	-	115,628	115,628
Other assets	60,460	278,289	338,749	32,263	241,170	273,433
	60,460	622,420	682,880	32,263	497,815	530,078
	24,396,140	12,195,365	36,591,505	18,006,046	13,136,604	31,142,650
Less: Allowance for impairment and credit losses	-	-	(523,114)	-	-	(465,008)
Unearned discount and capitalized interest	-	-	(4,638)	-	-	(4,444)
	P24,396,140	P12,195,365	P36,063,753	P18,006,046	P13,136,604	P30,673,198

*Includes returned checks and other cash items and rent deposit

**Excludes accrued taxes and other non-financial accruals

***Excludes withholding taxes payable and miscellaneous liabilities

	2016			2015		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	P32,593	P -	P32,593	P46,490	P -	P46,490
Other financial liabilities at amortized cost						
Deposit liabilities	26,887,511	79,575	26,967,086	19,226,669	96,805	19,323,474
Bills payable	-	-	-	2,749,161	-	2,749,161
Outstanding acceptances	10,584	-	10,584	19,103	-	19,103
Manager's checks	52,177	-	52,177	38,368	-	38,368
Accrued interest and other expenses**	347,175	-	347,175	297,798	-	297,798
Other liabilities***	1,470,339	-	1,470,339	1,239,597	-	1,239,597
	28,800,379	79,575	28,879,954	23,617,186	96,805	23,713,991
Nonfinancial Liabilities						
Accrued taxes	12,529	-	12,529	11,870	-	11,870
Income tax payable	-	-	-	10,738	-	10,738
Other liabilities	42,117	-	42,117	44,115	-	44,115
	54,646	-	54,646	66,723	-	66,723
	P28,855,025	P79,575	P28,934,600	P23,683,909	P96,805	P23,780,714

*Includes returned checks and other cash items and rent deposit

**Excludes accrued taxes and other non-financial accruals

***Excludes withholding taxes payable and miscellaneous liabilities

18. Equity

For the two comparative years, capital stock consists of the following (in thousands):

	Shares	Amount
Common stock - P10 par value:		
Authorized	300,000	P3,000,000
Issued and fully paid	247,969	2,479,687
Additional paid-in capital	-	53,514

The number of holders of the Bank's outstanding common shares is 110 and 104 as of December 31, 2016 and 2015, respectively.

The shares of the Bank were listed in the PSE since June 1999. In December 2000, the Parent Bank substantially increased its equity in the Bank through the acquisition of shares held by a minority group. As a result of this acquisition, the Parent Bank controlled approximately 91.0% of the Bank's capital stock compared to 57.0% prior to the acquisition. The General Banking Law of 2000 allows foreign banks to own up to 100.0% of Philippine incorporated banks, compared to 60.0% under the previous law. A further acquisition of shares held by the public representing approximately 4.0% of the Bank's equity was made by the Parent Bank in January 2001 through a tender offer at a price of P19.0 per share, the same price at which the shares from the minority group was acquired. In May 2001, the Parent Bank purchased another 4.0% of the outstanding shares at a price of P18.3 per share. As of December 31, 2016 and 2015, the Bank is 99.6% owned by the Parent Bank.

Voluntary Share Delisting

As discussed in Note 1, the Bank has filed voluntary delisting of its shares in PSE on October 7, 2011 and has officially delisted from the trading Board effective on February 24, 2012.

On November 28, 2012, the BSP issued Circular No. 775 requiring banks, which are majority-owned by foreign banks and are established in the Philippines, to list on the local stock exchange within three years from the effectivity of the circular (which was 15 days after it was published in a newspaper of general circulation).

Circular No. 775 cited as basis the provisions of Republic Act (RA) No. 7721 or “An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for other purposes.”

Section 2 of RA No. 7721 cited the listing requirement for foreign banks that entered the country by buying as much as 60.0% of an existing bank or investing in up to 60.0% of the voting stock of a new subsidiary incorporated in the country.

On July 15, 2014, Republic Act No. 10641 entitled “An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act 7721” was signed into a law by the President of the Philippines. Under the new law, foreign banks may now own up to 100.0% of domestic subsidiary banks. On November 21, 2014, the BSP issued Circular No. 858 implementing R.A. 10641. The said circular effectively removed the listing requirement for foreign banks.

Compliance with Regulatory Capital Requirement

As discussed in Note 5, the determination of the Bank’s compliance with regulatory requirements and ratios is based on the amount of the Bank’s unimpaired capital (regulatory capital) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRSs in some respects. Specifically, under existing banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10.0%) of its risk assets.

BSP issued Circular No. 639 dated January 15, 2009 mandates the use of ICAAP by all universal and commercial banks to determine their minimum required capital relative to their business risk exposures. The Bank considers its paid-in capital and retained earnings as its core economic capital.

Revised Minimum Capitalization of Banks

On October 29, 2014, the BSP issued Circular No. 854, which became effective on November 19, 2014, prescribing the revised minimum capitalization of banks operating in the Philippines. Existing banks not meeting the requirement shall be given a period of five years from effectivity of the circular within which to meet the minimum capital. In addition, these banks must submit an acceptable capital build-up program within one year from date of effectivity of the circular. The Bank, falling under the category of commercial banks with total number of branches ranging from ten to one hundred, must have a minimum capital of P10.0 billion by November 2019.

At the regular meeting of the BOD held on June 23, 2015, the BOD approved the restriction of the full amount of retained earnings for the following purposes:

- i.) to comply with minimum capital requirement set forth under BSP Circular No. 854;
- ii.) to comply with the requirements of the ICAAP pursuant to BSP Circular No. 639;
- iii.) to cover the resulting treasury shares acquired in relation to the Bank’s delisting and share buyback exercise; and
- iv.) to provide for buffer in preparation for BASEL III requirements.

The restriction on retained earnings relating to ICAAP and BASEL III ensure that the Bank has adequate, available qualified capital at all times to reasonably manage the significant risks identified and assessed in the ICAAP and BASEL III.

Moreover, as discussed in Note 5, BSP issued Circular No. 822 on amendments to the capital framework of foreign banks. It provides that the minimum capital for locally incorporated subsidiaries of foreign banks shall be the same as prescribed under Circular No. 781 for domestic banks of the same category.

On April 28, 2016, the Bank submitted its capital build up program to the BSP detailing the Bank's strategic plans in order to meet the required capital level. On June 16, 2016, the Monetary Board approved the Bank's capital build-up program. As of December 31, 2016, the Bank's total unimpaired capital amount to P6.7 billion.

Treasury Shares

The Bank's treasury shares were acquired in relation to the Bank's delisting and share buyback exercise in 2012. Restriction on retained earnings relating to treasury shares shall be lifted once the Bank's treasury stock has been fully disposed of. The restriction is also to ensure full compliance with regards to the rules on treasury shares in the Corporation Code of the Philippines.

Retained Earnings

As of December 31, 2016 and 2015, retained earnings appropriated for the following purposes are as follows (amounts in thousands):

	2016	2015
Treasury share acquisition	P15,952	P15,952
Trust operations	4,981	4,981
Total appropriated retained earnings	P20,933	P20,933

19. Retirement Plans

The Bank has a funded, noncontributory, defined benefit retirement plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method and valuations are obtained on a periodic basis. The Bank's latest actuarial valuation date is December 31, 2016.

The plan is registered with the Bureau of Internal Revenue (BIR) as tax-qualified plan under Republic Act No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT). The BOT of the retirement plan exercises voting rights over the shares and approve material transactions. The retirement plan's accounting and administrative functions are undertaken by the Bank's Retirement Funds Office.

The following table shows the components of retirement benefit expense recorded in the statements of income and in OCI:

	2016	2015
Components of Retirement Benefit Liability Recorded in the Statements of Income		
Current service cost	P23,901,324	P18,518,574
Net interest expense:		
Interest expense	7,153,554	6,163,239
Interest income	(8,358,444)	(7,483,657)
	22,696,434	17,198,156
Components of Retirement Benefit Liability Recorded in OCI		
Remeasurement (gain) loss on defined benefits obligation	(11,411,237)	10,639,255
Remeasurement gain on plan assets	(169,656)	(1,591,977)
	(11,580,893)	9,047,278
Total	P11,115,541	P26,245,434

The net pension asset, included under "Other Assets" account, recognized in the statements of financial position follows:

	2016	2015
Present value of defined benefits obligation	P156,935,125	P149,032,372
Fair value of plan assets	(193,617,888)	(174,134,242)
Net pension asset	(P36,682,763)	(P25,101,870)

The movements of the present value of defined benefits obligation of the Bank are as follows:

	2016	2015
Balance at beginning of year	P149,032,372	P128,400,818
Current service cost	23,901,324	18,518,574
Interest expense	7,153,554	6,163,239
Benefits paid	(11,740,888)	(14,689,514)
Remeasurement (gains) losses on obligation arising from:		
Change in financial assumptions	(16,139,785)	-
Change in demographic assumptions	-	-
Experience adjustment	4,728,548	10,639,255
Balance at end of year	P156,935,125	P149,032,372

The movements of the fair value of plan assets of the Bank are as follows:

	2016	2015
Balance at beginning of year	P174,134,242	P155,909,518
Interest income	8,358,444	7,483,657
Contribution to plan assets	22,696,434	23,838,604
Benefits paid	(11,740,888)	(14,689,514)
Remeasurement gain on plan assets	169,656	1,591,977
Balance at end of year	P193,617,888	P174,134,242

The actual return on plan assets amounted to P8.5 million and P9.1 million in 2016 and 2015, respectively.

The Bank expects to contribute P20.9 million to its defined benefits retirement plan in 2017 (2015: P22.7 million in 2016).

The retirement benefit expense under “Salaries and other employee benefit” in the statements of income are recognized as follows:

	2016	2015
Current service cost	P23,901,324	P18,518,574
Interest (income) cost	(1,204,890)	(1,320,418)
	P22,696,434	P17,198,156

The Bank’s plan assets consist of the following (in thousands):

	2016	2015
Debt securities	P109,081	P103,889
Equity investments	33,526	12,531
Due from banks	22,482	37,734
Loans	13,019	11,506
Accrued interest receivables	1,632	1,547
Dividends receivable	250	9
	P179,990	P167,216

The Bank’s plan assets as of December 31, 2016 differ from the balances at end of year due to the actuary using the September 30, 2016 balances in the actuarial valuation report. These were adjusted by applying interest, contributions and subtracting expected benefit payments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2016	2015
Discount rate	5.6%	4.8%
Salary increase rate	4.0%	4.0%

Assumptions for mortality and disability rate are based on the adjusted 1985 Unisex Annuity Table and the Adjusted 1952 Disability Table reflecting experience improvement and Philippine experience.

As of December 31, 2016, the weighted average duration of defined benefit obligation is 14 years (2015: 14 years).

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	2016			
	Discount Rate		Salary Increase Rate	
	+0.5%	-0.5%	+0.5%	-0.5%
Defined benefit obligation	(P8,981,628)	P9,813,949	P9,459,110	(P8,740,797)
Retirement liability	(8,981,628)	9,813,949	9,459,110	(8,740,797)

	2015			
	Discount Rate		Salary Increase Rate	
	+0.5%	-0.5%	+0.5%	-0.5%
Defined benefit obligation	(P9,116,932)	P9,997,005	P9,534,796	(P8,786,587)
Retirement liability	(9,116,932)	9,997,005	9,534,796	(8,786,587)

Although the analysis does not take into account of the full distribution of cashflows expected under the plan, it does provide an appropriation of the sensitivity of the assumptions shown.

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2016 and 2015 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Bank has not made any provision for impairment losses relating to the receivables from retirement plan in 2016 and 2015.

The plan exposes the Bank to interest rate risk and market (investment) risk.

The BOT reviews the level of funding required for the retirement fund. This includes the asset-liability matching (ALM) strategy and investment risk management policy. The Bank's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Bank monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

20. Leases

The Bank leases certain equipment and premises of its head office and branches. The lease contracts are for periods ranging from 1 to 10 years and are renewable at the Bank's option under certain terms and conditions. Various lease agreements include escalation clauses, most of which bear an annual rent increase of 5.0% to 10.0%. The lease agreements do not have contingent rent provisions.

Rent expense (included under "Occupancy and other equipment-related costs" account in the statements of income) incurred by the Bank amounted to P113.5 million and P104.1 million in 2016 and 2015, respectively.

Future minimum lease rentals payable under non-cancelable operating leases follow:

	2016	2015
Within one year	P85,013,868	P73,194,737
After one year but not more than five years	215,193,968	188,742,981
	P300,207,836	P261,937,718

21. Income and Other Taxes

Under Philippine tax laws, the RBU of the Bank is subject to percentage and other taxes (presented as “Taxes and licenses” account in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). Income taxes include the corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Taxes and licenses incurred by the Bank amounted to P158.1 million and P154.9 million in 2016 and 2015, respectively.

Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

In addition, current tax regulations provide for the ceiling on the amount of entertainment and representation (EAR) that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as deductible expense for a service bank like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR of the Bank amounted to P1.7 million and P1.4 million (included under “Miscellaneous expenses” account in the statements of income) in 2016 and 2015, respectively (see Note 22).

The regulations also provide for MCIT of 2.0% on modified gross income and allow a Net Operating Loss Carry Over (NOLCO). The Bank’s MCIT and NOLCO may be applied against the Bank’s income tax liability and taxable income, respectively, over a three-year period from the year of inception/incurrence.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.0% income tax. The FCDU’s other income, those that are not classified as onshore or offshore under R.A. 9294, is subject to 30.0% RCIT based on net taxable income (or 2.0% MCIT based on gross income, if applicable). In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.5%. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.0% income tax.

Provision for income tax consists of:

	2016	2015
Final	P45,374,021	P19,797,641
RCIT	66,233,603	10,738,219
	111,607,624	30,535,860
Deferred	9,444,668	29,147,354
	P121,052,292	P59,683,214

The components of deferred tax assets and liabilities are as follows:

	2016	2015
Deferred tax assets:		
Allowance for impairment and credit losses	P145,999,034	P125,925,049
Unamortized past service costs	7,965,474	9,205,250
Accumulated depreciation of investment properties	2,931,534	2,486,496
	156,896,042	137,616,795
Deferred tax liabilities:		
Unrealized mark-to-market gain on derivatives	32,395,120	20,189,942
Unrealized gain on non-financial asset	7,312,162	1,798,254
Net pension asset	11,004,829	
	50,712,111	21,988,196
	P106,183,931	P115,628,599

The Bank has no unrecognized deferred tax liability as at December 31, 2016. In 2015, the Bank did not recognize deferred tax liability of P7.53 million on net pension asset amounting to P25.10 million.

The reconciliation between the statutory income tax and provision for income tax follows:

	2016	2015
Statutory income tax rate	30.0%	30.0%
Tax effects of:		
Tax-paid and tax-exempt income	(5.7)	(0.4)
FCDU income	16.3	1.3
Nondeductible interest expense	1.6	1.4
Nondeductible operating expense	9.2	8.4
Others	4.5	3.6
Effective income tax rate	55.9%	44.3%

22. Income and Expenses

Service fees and commission income consist of:

	2016	2015
Deposit-related	P110,047,911	P111,783,863
Credit-related	84,214,146	106,767,595
Miscellaneous	38,841,816	46,497,854
	P233,103,873	P265,049,312

Miscellaneous income consists of:

	2016	2015
Recovery on charged-off assets	P60,019,641	P59,488,407
Unrealized gain from nonfinancial assets	16,110,352	779,519
Income from trust division	6,450,486	7,279,770
Dividend income	4,840,230	631,000
Rent income - safety deposit box	652,004	648,667
Income from assets sold/exchanged	198,516	312,990
(Loss) income from assets acquired	(127,189)	1,827,171
Other income	16,452,092	43,203,650
	P104,596,132	P114,171,174

Other income consists of long-outstanding unreconciled items and mark-up on auxiliary services.

Miscellaneous expenses consist of:

	2016	2015
Insurance	P52,659,680	P47,021,360
Management and professional fees	39,326,924	34,939,350
Office supplies	18,102,747	13,871,741
Postage and cable	17,857,648	14,713,549
Litigation	15,708,264	10,258,268
Banking and supervision fees	8,953,700	7,907,793
Telecommunications	8,296,675	7,392,555
Advertising	7,966,394	12,699,694
Travel and transportation	6,385,075	6,332,832
Freight	3,695,138	2,600,178
Bank charges	1,849,991	1,177,795
Entertainment and representation	1,705,941	1,381,447
Membership dues	1,569,829	1,616,569
Fuel and lubricants	596,382	609,106
Other expenses	29,723,751	27,466,497
	P214,398,139	P189,988,734

Other expenses consist of fees paid for periodicals, VISA and check processing.

23. Trust Operations

Securities and other properties held by the Bank in a fiduciary or agency capacity for its customers are not included in the Bank's statements of financial position since these items are not assets of the Bank. As of December 31, 2016 and 2015, total assets held by the Bank's Trust Department amounted to P1.6 billion and P1.4 billion, respectively (see Note 25).

In connection with the trust operations of the Bank, government securities with carrying value of P17.8 million and P26.0 million (face value of P18.0 million and P25.0 million) as of December 31, 2016 and 2015, respectively, are deposited with the BSP in compliance with existing banking regulations relative to the trust functions of the Bank.

In compliance with existing BSP regulations, 10.0% of the Bank's income from trust business is appropriated to retained earnings. This yearly appropriation is required until the retained earnings for trust functions equals 20.0% of the Bank's regulatory net worth. No part of such retained earnings shall at any time be paid out as dividends, but losses accruing in the course of business may be charged against such surplus. As of December 31, 2016 and 2015, the reserve for trust functions amounted to P5.0 million.

24. Operating Segment Information

The Bank is organized based on the products and services that it offers and operates three principal areas namely: Treasury, Institutional Banking and Retail Banking.

Treasury - principally provides money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and acceptances with other banks.

Institutional Banking - principally handles loans, trade finance and other credit facilities and deposit and current accounts for institutional customers.

Retail Banking - addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages and personal loans.

Others - principally handling supportive roles which are performed by Operations, Finance and Corporate Affairs Group, Institutional Credit Risk Management Group and Retail Credit Management Group and other divisions under the direct stewardship of the Office of the President.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported at net as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Bank has no significant customers which contributes 10.0% or more of the total revenue, net of interest expense.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

The following table presents revenue and income information of operating segments presented in accordance with PFRSs as of and for the years ended December 31, 2016 and 2015 (amount in thousands):

	2016				Total
	Treasury	Institutional Banking	Retail Banking	Others	
Net interest income					
Third party Intersegment	P63,728 96,760	P569,145 (199,677)	P984,716 103,345	P - (428)	P1,617,589 -
Non-interest income	160,488 279,602	369,468 50,949	1,088,061 295,046	(428) 5,198	1,617,589 630,795
Revenue - net of interest expense	440,090	420,417	1,383,107	4,770	2,248,384
Non-interest expenses	138,020	297,986	809,475	668,804	1,914,285
Income (loss) before provision for income tax	302,070	122,431	573,632	(664,034)	334,099
Provision for income tax	96,933	(17,587)	35,559	6,147	121,052
Net income (loss)	P205,137	P140,018	P538,073	(P670,181)	P213,047
Depreciation and amortization	P1,542	P2,380	P21,567	P21,221	P46,710
Software amortization	P7,224	P170	P812	P28,037	P36,243
Provision for impairment and credit losses	P -	P108,257	P126,444	(P675)	P234,026

	2015				Total
	Treasury	Institutional Banking	Retail Banking	Others	
Net interest income					
Third party Intersegment	P47,507 99,504	P484,587 (150,238)	P1,031,419 51,116	P - (382)	P1,563,513 -
Non-interest income	147,011 177,776	334,349 88,484	1,082,535 290,836	(382) 6,147	1,563,513 563,243
Revenue - net of interest expense	324,787	422,833	1,373,371	5,765	2,126,756
Non-interest expenses	123,316	280,602	794,831	610,304	1,809,053
Income (loss) before provision for income tax	201,471	142,231	578,540	(604,539)	317,703
Provision for income tax	8,292	24,106	27,236	49	59,683
Net income (loss)	P193,179	P118,125	P551,304	(P604,588)	P258,020
Depreciation and amortization	P1,814	P3,169	P21,974	P29,925	P56,882
Software amortization	P7,225	P230	P797	P23,828	P32,080
Provision for impairment and credit losses	P -	P84,373	P181,563	P35	P265,971

Segment information for the statements of financial position is as follows (amounts in thousands):

	Year	Segment Assets	Segment Liabilities	Capital Expenditures
Treasury	2016	P8,619,796	P41,575	P608
	2015	6,166,318	2,803,878	3,735
Institutional Banking	2016	17,257,360	12,654,713	3,418
	2015	15,113,345	7,435,665	2,428
Retail Banking	2016	9,798,639	15,397,461	27,645
	2015	9,087,449	12,632,583	22,786
Others	2016	387,958	840,851	37,814
	2015	306,087	908,590	21,580
Total	2016	P36,063,753	P28,934,600	P69,485
Total	2015	P30,673,199	P23,780,716	P50,529

Presented below is the reconciliation of information on reportable segments to PFRS measures.

	2016	2015
Revenues - net of interest expense		
Total revenue for reportable segments	P2,248,384	P2,126,756
Unallocated amounts		-
Elimination of inter-segment revenue		-
Consolidated revenue	2,248,384	2,126,756
Profit before Tax		
Total profit for reportable segments	334,099	317,703
Unallocated amounts		-
Consolidated profit before tax	334,099	317,703
Assets		
Total assets for reportable segments	36,063,753	30,673,199
Unallocated amounts		-
Consolidated total assets	36,063,753	30,673,199
Liabilities		
Total liabilities for reportable segments	28,934,600	23,780,716
Unallocated amounts		-
Consolidated total liabilities	28,934,600	23,780,716

The Bank does not have geographical information to disclose since all operations are within the Philippines.

25. Commitments and Contingent Assets and Liabilities

In the normal course of business, the Bank enters into various commitments and incurs contingent liabilities that are not presented in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these commitments and contingent liabilities.

For regulatory reporting purposes, the following is a summary of the commitments and contingent liabilities at their equivalent peso contractual amounts (amount in thousands):

	Note	2016	2015
Unused commercial letters of credit		P3,537,185	P295,673
Trust department accounts	23	1,617,017	1,419,456
Outward bills for collection		1,508,455	318,452
Credit commitments		1,448,983	1,736,440
Others		3,545	4,481

26. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

The Bank treats other subsidiaries and branch offices of the Parent Bank as related parties (collectively referred to as “affiliates”).

In the ordinary course of business, the Bank has loan transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the respective total regulatory capital or 15.0% of total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular 423 which provides for the amended definition of DOSRI accounts. It clarifies that loans granted to officers and employees under an approved fringe benefit program is excluded from the individual ceiling but is subject to 5.0% aggregate ceiling.

The following table shows information relating to DOSRI loans (in thousands):

	2016	2015
Total outstanding DOSRI loans	P22,787	P973
Percent of DOSRI loans to total loan portfolio	0.0%	0.0%
Percent of unsecured DOSRI loans to total DOSRI loans	-	-
Percent of past due DOSRI loans to total DOSRI loans	-	-
Percent of non-performing DOSRI loans to total DOSRI loans	-	-

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank’s subsidiaries and affiliates shall not exceed 10.0% of bank’s net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) are as follows:

Category/Transaction	Year	Amount of the Transaction	Outstanding Balance		Terms	Conditions
			Due from Related Parties	Due to Related Parties		
Parent						
Current Deposits						
Deposits	2016	P2,641,302,992	P113,594,405	P -	Demandable;	Unsecured;
Withdrawals		(2,571,286,082)	-	-	non-interest bearing	no impairment
Deposits	2015	2,410,159,180	34,978,221	-	Demandable;	Unsecured;
Withdrawals		(2,449,932,140)	-	-	non-interest bearing	no impairment
Bills Payable						
Availments	2016	15,369,905,000	-	-	1-7days;	Unsecured;
Settlements		(18,126,317,283)	-	-	interest bearing	no impairment
Availments	2015	15,899,307,610	-	2,749,161,040	1-7days;	Unsecured;
Settlements		(13,200,935,903)	-	-	interest bearing	no impairment
Interest Expense on Bills Payable						
	2016	6,592,255	-	6,592,255	Demandable;	Unsecured; no impairment
	2015	25,892,258	-	25,892,258	Demandable; interest bearing	Unsecured; no impairment
Entities Under Common Control						
Current Deposits to CTBC						
- New York						
Deposits	2016	1,465,874,198	23,973,309	-	Demandable;	Unsecured;
Withdrawals		(1,493,041,441)	-	-	non-interest bearing	no impairment
Deposits	2015	944,540,427	3,662,054	-	Demandable;	Unsecured;
Withdrawals		(949,201,822)	-	-	non-interest bearing	no impairment
Current Deposits to CTBC - USA						
Deposits	2016	-	-	-	Demandable;	Unsecured;
Withdrawals		-	-	-	non-interest bearing	no impairment
Deposits	2015	-	-	-	Demandable;	Unsecured;
Withdrawals		-	-	-	non-interest bearing	no impairment
Current Deposits to CTBC - Hongkong						
Deposits	2016	1,115,387,713	74,243,421	-	Demandable;	Unsecured;
Withdrawals		(894,445,965)	-	-	non-interest bearing	no impairment
Deposits	2015	6,538,772	2,114,609	-	Demandable;	Unsecured;
Withdrawals		(5,462,281)	-	-	non-interest bearing	no impairment
Current Deposits to CTBC- Canada						
Deposits	2016	5,916,955	924,932	-	Demandable;	Unsecured;
Withdrawals		(5,106,474)	-	-	non-interest bearing	no impairment
Deposits	2015	84,572,201	96,068	-	Demandable;	Unsecured;
Withdrawals		(84,331,047)	-	-	non-interest bearing	no impairment
Key Management Personnel						
Loans and Receivables						
Additions	2016	16,508,101	24,150,108	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Collections		(15,100,986)	-	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Additions	2015	16,372,082	22,742,993	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Collections		(17,144,785)	-	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Interest Income on Loans and Receivables						
	2016	1,931,660	1,931,660	-	Demandable;	Unsecured;
	2015	1,918,558	1,918,558	-	Demandable; interest bearing	Unsecured; no impairment
Other Related Parties						
Employees' retirement fund held by Trust Operations						
Deposit Liabilities						
Deposits	2016	87,148,905	-	563,523	1-3years,	Secured,
Withdrawals		(87,144,428)	-	-	interest bearing	no impairment
Deposits	2015	62,759,053	-	568,000	1-3years,	Secured,
Withdrawals		(63,264,053)	-	-	interest bearing	no impairment
Interest Expense on Deposit Liabilities						
	2016	52,064	-	-	Demandable;	Unsecured;
	2015	92,362	-	92,362	Demandable; interest bearing	Unsecured; no impairment
TOTAL	2016	(P2,481,822,816)	P238,817,835	P7,155,778		
TOTAL	2015	P2,681,880,472	P65,512,503	P2,775,713,660		

All transactions with related parties are to be settled in cash.

In 2016 and 2015, there were no provision for credit losses recognized on loans and receivables from key management personnel.

The remuneration of directors and other members of key management personnel are as follows:

	2016	2015
Short-term benefits	P98,096,599	P75,858,175
Other long-term benefits	910,626	625,892
	P99,007,225	P76,484,067

In accordance with the Bank's By-Laws, profit share of officers and employees is computed at 10.0% of net income after tax.

The Bank's compensation to Key Management Personnel is shown as part of "Compensation and fringe benefits" in the statements of income.

Furthermore, the Bank has a separate funded noncontributory defined benefit plans covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The Bank's employee benefit fund (or "retirement plan asset") is in the form of a trust account being maintained by the Bank's Trust Operations Department ("Trustee").

As discussed in Note 19, the Bank's retirement plan assets are invested in various debt and equity instruments, such as government securities, corporate papers, equity securities traded in PSE, as well as investments in BSP's special deposit account and placements with the Bank. The Bank's retirement plan assets do not have investments in real properties.

Other than placements with the Bank, the Bank's retirement plan assets do not have investments in securities, whether debt or equity, issued by the Bank as of December 31, 2016 and 2015.

As of December 31, 2016 and 2015, the carrying values of the Bank's retirement plan assets, which approximate its fair value, amounted to P180.0 million and P167.2 million, respectively (see Note 19).

27. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2016 and 2015 and are not indicative of either market risk or credit risk (in thousands).

	2016		Notional Amount
	Assets	Liabilities	
Freestanding Derivatives - Currency forwards and swap			
Buy:			
USD/CHF	P -	P -	-
USD/EUR	-	10	USD523
USD/JPY	-	165	USD400
USD/PHP	133,694	867	USD84,760
USD/NZD	8,531	-	USD7,797
USD/AUD	3	-	USD36
USD/GBP	16	-	USD123
Sell:			
USD/PHP	6,331	31,550	USD90,447
	P148,575	P32,592	
	2015		Notional Amount
	Assets	Liabilities	
Freestanding Derivatives - Currency forwards and swaps			
Buy:			
USD/CHF	P12	P -	USD10
USD/EUR	42	-	USD220
USD/JPY	16	-	USD100
USD/PHP	59,334	15,217	USD135,075
USD/NZD	-	31,269	USD13,016
USD/AUD	-	4	USD7
Sell:			
USD/PHP	22,217	-	USD133,249
	P81,621	P46,490	

The Bank entered into currency forwards and swap contracts to manage its foreign exchange risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future.

The net movements in fair value changes of derivatives are as follows (amount in thousands):

	2016	2015
Net derivative asset at beginning of year	P35,131	P19,826
Net changes in fair value of derivatives	79,887	15,080
Fair value of settled contracts	965	225
Net derivative asset at end of year	P115,983	P35,131

28. Financial Performance

EPS amounts attributed to equity holdings of the Bank were computed as follows:

	2016	2015
a. Net income	P213,047,078	P258,020,128
b. Weighted average number of outstanding common shares ¹	247,564,631	247,564,631
c. Basic/Diluted EPS (a/b)	P0.86	P1.04

¹ The Bank acquired 484,920 shares of its common stock in February 2012 as part of its delisting and share buyback program. Cost of acquisition is recorded as 'Treasury Stock'

The following basic ratios measure the financial performance of the Bank:

	2016	2015
a. Net income	P213,047,078	P258,020,128
b. Average total equity	7,079,072,848	6,826,548,862
Return on average equity (a/b)	3.0%	3.8%
c. Net income	P213,047,078	P258,020,128
d. Average total assets	32,840,188,953	30,352,579,470
Return on average assets (c/d)	0.7%	0.9%
e. Net interest income	P1,617,589,511	P1,563,513,499
f. Average interest earning assets	30,438,256,293	28,783,155,536
Net interest margin on average earning assets (e/f)	5.3%	5.4%

Note: Average balances were determined as the average of the month-end balances of the respective statements of financial position accounts for the year.

29. Supplementary Information Required Under Revenue Regulations 15-2010

On November 25, 2010, the BIR issued Revenue Regulations (RR) No. 15-2010 for the amendments in certain provisions of RR No. 21-2002, as *Amended, Implementing Section 6(H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying the Bank's Tax Returns.*

In compliance with the above RR, the Bank presents information on taxes, duties and license fees paid or accrued during the taxable years.

The details of taxes and licenses account in 2016 are as follows:

Gross receipt tax (GRT)	P115,188,067
Documentary stamp tax	39,074,398
Business licenses	3,074,972
Real property tax	544,851
Bank car registration	172,164
Community tax certificate	17,427
Annual registration fee	12,500
Business taxes	4,288
	P158,088,667

The NIRC of 1997 provides for the imposition of GRT on gross receipts derived by banks from sources within the Philippines. Accordingly, the Bank's gross receipts are subject to GRT as reimposed in RA No. 9238 beginning January 1, 2004.

Details of the GRT remitted in 2016 are as follows:

	Tax Base	Total Remittances	Balance
Income subject to 5.0%	P1,524,313,228	P69,098,747	P7,116,915
Income subject to 1.0%	34,302,214	317,361	25,661
Other income subject to 7.0%	571,604,404	36,671,109	3,341,199
	P2,130,219,846	P106,087,217	P10,483,775

The difference in the recorded expense for GRT and the total remittances and outstanding balance as of December 31, 2016 and 2015 amounting to P1.4 million and P1.3 million, respectively, is attributed to pre-termination of loans in which the adjustment to GRT is shouldered by the customer.

Documentary Stamp Tax

Movement in documentary stamp tax as follows:

	Balance
Documentary stamps on hand, December 31, 2015	P5,409,557
Purchases (BIR Form 2000)	134,000,000
Documentary stamps used	(133,255,260)
Documentary stamps on hand, December 31, 2016	P6,154,297

Withholding Taxes

Details of total remittances of withholding taxes in 2016 are as follows:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	P170,711,880	P22,339,192
Final withholding tax on interest on deposits	20,186,788	2,583,858
Expanded withholding taxes	20,046,625	1,851,154
	P210,945,293	P26,774,204

Outstanding amount of withholding taxes are included in "Other liabilities" account in the statements of financial position.

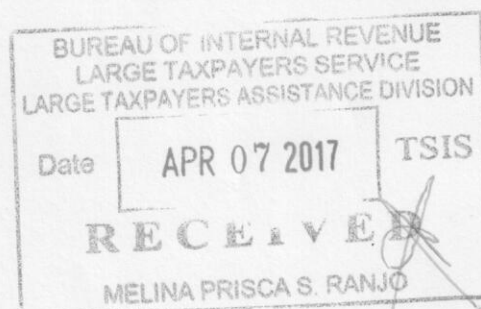
Deficiency Tax

On March 16, 2015, the Bank received a Preliminary Assessment Notice (PAN) from the BIR, covering the taxable year 2011, amounting to P200.6 million, inclusive of penalties and interest. The said PAN pertains to the allocation of expenses under Revenue Regulations No. 4-2011 (RR 4-11).

Tax Cases

In relation to RR 4-11, on April 6, 2015, several local banks and branches of foreign banks, including the Bank, filed a Petition for Declaratory Relief (with urgent application for the issuance of a Temporary Restraining Order and/or a Writ of Preliminary Injunction) with the Makati Regional Trial Court (RTC).

On April 27, 2015, the Makati RTC granted the application for a Writ of Preliminary Injunction and issued an Order stopping the BIR from enforcing, carrying-out, and implementing RR 4-11. The BIR moved for the reconsideration, but the same was denied. The case is now undergoing pre-trial conference which will eventually lead to trial stage proper. Pending these incidents, however, the court issued injunction against the BIR stays.



**CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE
FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant (CPA) who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for CTBC BANK (PHILIPPINES) CORP. for the period ending December 31, 2016.

In discharging this responsibility, I hereby declare that (check one (1)):

 / I, am the Head of the Financial Control Services Department of CTBC BANK (PHILIPPINES) CORP.

 I, am the (position) of (name of organization/person) and was contracted to perform this service.

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of R.G. Manabat & Co. who/which is the external auditor who rendered the audit opinion for the said Financial Statements and Notes to the Financial Statements.

I hereby declare, under the penalties of perjury and violation of Republic Act No. 9298, that my statements are true and correct.

SIGNATURE OVER PRINTED NAME:


ANDREW A. FALCON

PROFESSIONAL IDENTIFICATION CARD NO. 0111680

VALID UNTIL: November 30, 2019


ACCREDITATION NUMBER: CPA accreditation filed on December 29, 2016

still in process

VALID UNTIL:

NOTARY PUBLIC

Doc. No. 07 ;
Page No. 19 ;
Book No. VI ;
Series of 2017.


ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DECEMBER 31, 2017
APPT. NO. 6 (2016-2017) / ROLL NO. 51630
PTR NO. A-3253012 / 01-03-17 / TAGUIG CITY
IBP NO. 1019551 / 01-15-16 / CAVITE
MCLE COMPLIANCE NO. V-0007014 / 03-23-15
16F FORT LEGEND TOWER, 31TH STREET CORNER 3RD
AVENUE BONIFACIO GLOBAL CITY, TAGUIG CITY



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Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY INFORMATION**

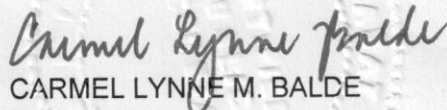
The Board of Directors and Stockholders
CTBC Bank (Philippines) Corporation
Fort Legend Towers, Third Avenue corner 31st Street
Bonifacio Global City, Taguig City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of CTBC Bank (Philippines) Corporation (the "Bank") as at and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated February 22, 2017.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Bank taken as a whole. The supplementary information included in Schedules I - VII are the responsibility of the Bank's management.

These supplementary information are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and are not required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.



CARMEL LYNNE M. BALDE

Partner

CPA License No. 0099677

BSP Accredited, Category A, valid until December 17, 2017

SEC Accreditation No. 1055-AR, Group A, valid until May 20, 2018

Tax Identification No. 205-133-498

BIR Accreditation No. 08-001987-24-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. 5904917MD

Issued January 3, 2017 at Makati City

February 22, 2017
Makati City, Metro Manila

CTBC BANK (PHILIPPINES) COMMERCIAL BANK CORPORATION
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY
SCHEDULES

Schedule I:	Schedule of all Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations] effective as of December 31, 2016
Schedule II:	Reconciliation of Retained Earnings Available for Dividend Declaration
Schedule III:	Schedule of Financial Soundness Indicators
Schedule IV:	Relationship Map
Schedule V:	Supplementary Information and Disclosures Required by Annex 68-E
Schedule VI:	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
Schedule VII:	Amended to PFRS 7, Disclosure: Offsetting Financial Assets and Financial Liabilities

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

**SCHEDULE OF ALL PHILIPPINE FINANCIAL REPORTING STANDARDS
(PFRSs) [WHICH CONSIST OF PFRSS, PHILIPPINE ACCOUNTING
STANDARDS (PAS) AND PHILIPPINE INTERPRETATIONS] EFFECTIVE AS
OF DECEMBER 31, 2016**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First- time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First- time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements			✓

* The Bank will adopt this new or amendment to standard effective January 1, 2017.

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SCHEDULE I

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments		✓**	
	<i>Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39</i>		✓**	
PFRS 9 (2014)	Financial Instruments		✓**	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓

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SCHEDULE I

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 – 2016 Cycle Clarifications of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		✓**	
PFRS 16	Leases		✓***	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative		✓*	
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓

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SCHEDULE I

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses		✓*	
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

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SCHEDULE I

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information "elsewhere in the interim financial report"			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)	✓		
	Amendments to PAS 40: Transfers of Investment Properties		✓**	

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SCHEDULE I

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transaction and Advance Consideration		✓**	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

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SCHEDULE I

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01 (Revised)	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full	✓		
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)	✓		
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01-Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position	✓		
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations			✓
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost	✓		
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?			✓
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	✓		

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SCHEDULE I

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓
PIC Q&A 2015-01	Conforming Changes to PIC Q&A - Cycle 2015			✓
PIC Q&Q 2016-01	Conforming Changes to PIC Q&A - Cycle 2016			✓
PIC Q&A 2016-02	PAS 32 and PAS 38 – Accounting Treatment of Club Shares Held by an Entity		✓	
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓

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CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
DECEMBER 31, 2016**

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning ¹	P -
Net income during the year closed to retained earnings	P213,047,078
Less: Non-actual/ unrealized income net of tax	
Equity in net income of associate/ joint venture	-
Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents)	82,997,486
Unrealized actuarial gain	-
Fair value adjustment (marking to market gains)	123,643
Provision for deferred tax asset	(9,444,669)
Fair value adjustment of Investment Property/AR- ICCS resulting in gain	16,110,352
Adjustment due to deviation from PFRSs/GAAP - gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRSs	4,383,174
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRSs/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Net income actually earned during the year	118,877,092
Add/Less:	
Dividend declaration during the period	-
Appropriations of Retained Earnings during the period	
Trust operations	-
Treasury shares ^{1, 2}	-
Minimum capital requirements per BSP Circular No. 854, BASEL III requirements, and ICAAP ¹	(118,877,092)
Reversal of appropriations	-
Effects of prior period adjustments	-
Total retained earnings, available for dividend declaration¹, ending	P -

¹ - At the regular meeting of the BOD held on June 23, 2015, the BOD approved the restriction of the full amount of retained earnings for the following purposes:

- i.) to comply with minimum capital requirement set forth under BSP Circular No. 854.
- ii.) to comply with the requirements of the ICAAP pursuant to BSP Circular No. 639;
- iii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise; and
- iv.) to provide for buffer in preparation for BASEL III requirements

² - Amount includes transaction cost.

CTBC BANK (PHILIPPINES) CORPORATION
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SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2016

Liquidity Ratio

The ratio for the years 2016 and 2015 are as follows:

	2016	2015
Net liquid assets	P12,291,864,487	P6,119,010,095
Total deposits	26,967,086,220	19,323,474,062
Ratio of net liquid assets to total deposits	45.6%	31.7%

Net liquid assets consist of cash, due from BSP, due from banks, interbank loans, securities held for trade and available for sale less derivatives liabilities and interbank borrowings.

Debt to Equity Ratio

The ratio for the years 2016 and 2015 are as follows:

	2016	2015
Total liabilities	P28,934,599,546	P23,780,715,887
Total equity	7,129,153,350	6,892,483,314
Ratio of debt to equity	405.9%	345.0%

Assets to Equity Ratio

The ratio for the years 2016 and 2015 are as follows:

	2016	2015
Total assets	P36,063,752,896	P30,673,199,201
Total equity	7,129,153,350	6,892,483,314
Ratio of total assets to equity	505.9%	445.0%

Interest Rate Coverage Ratio

The ratio for the years 2016 and 2015 are as follows:

	2016	2015
Income before income tax	P334,099,370	P317,703,342
Interest expense	156,633,404	158,713,938
Interest coverage ratio	213.3%	200.2%

SCHEDULE III*Profitability Ratios*

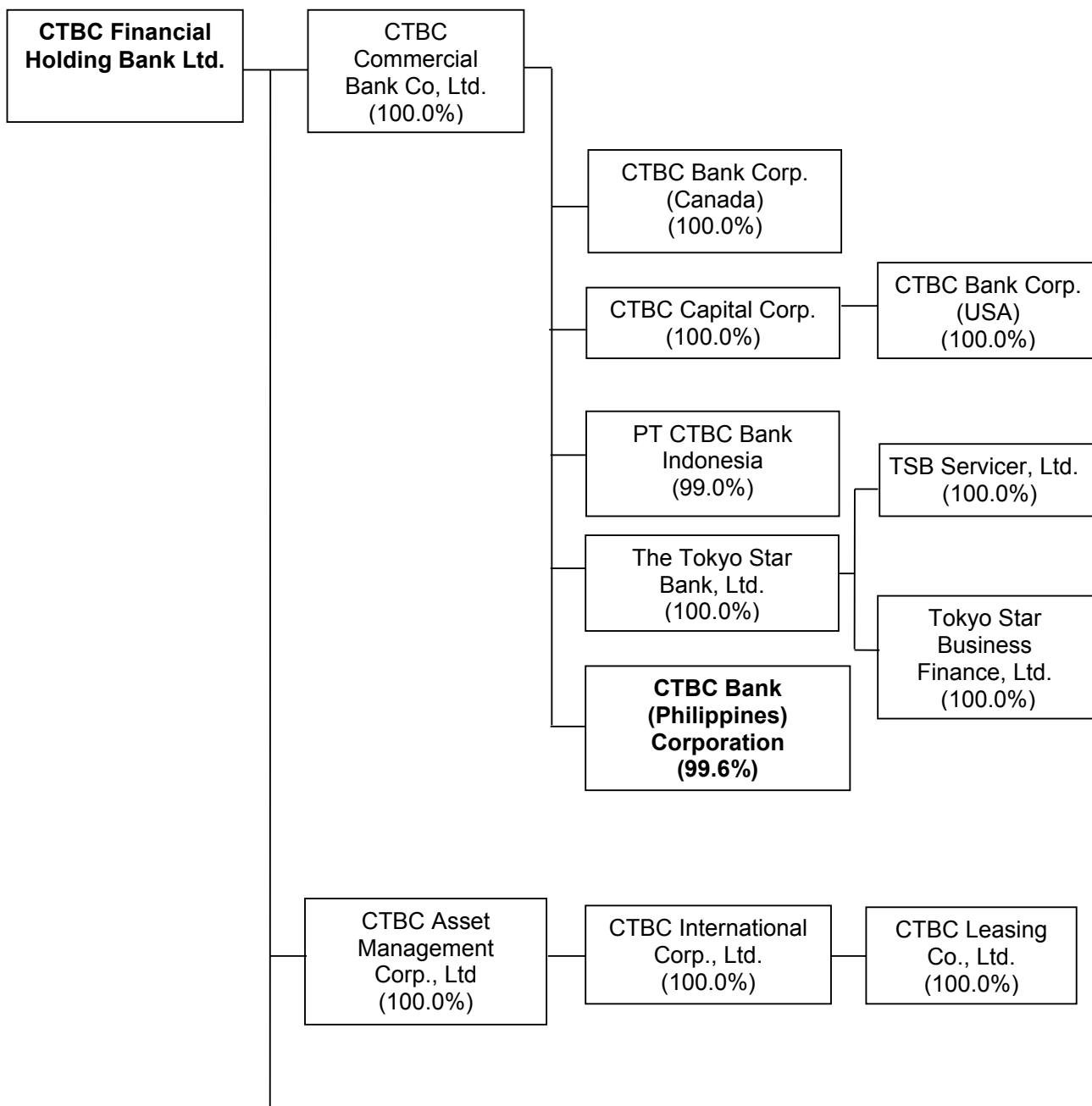
The ratio for the years 2016 and 2015 are as follows:

	2016	2015
a.) Net income	P213,047,078	P258,020,128
b.) Average total equity	7,079,072,847	6,826,548,862
Return on average equity (a/b)	3.0%	3.8%
c.) Net income	P213,047,078	P258,020,128
d.) Average total assets	32,840,188,953	30,352,579,470
Return on average assets (c/d)	0.6%	0.9%
e.) Net interest income	1,617,589,511	P1,563,513,499
f.) Average interest earning assets	30,438,256,293	28,783,155,536
Net interest margin on average earning assets (e/f)	5.3%	5.4%

CTBC BANK (PHILIPPINES) CORPORATION
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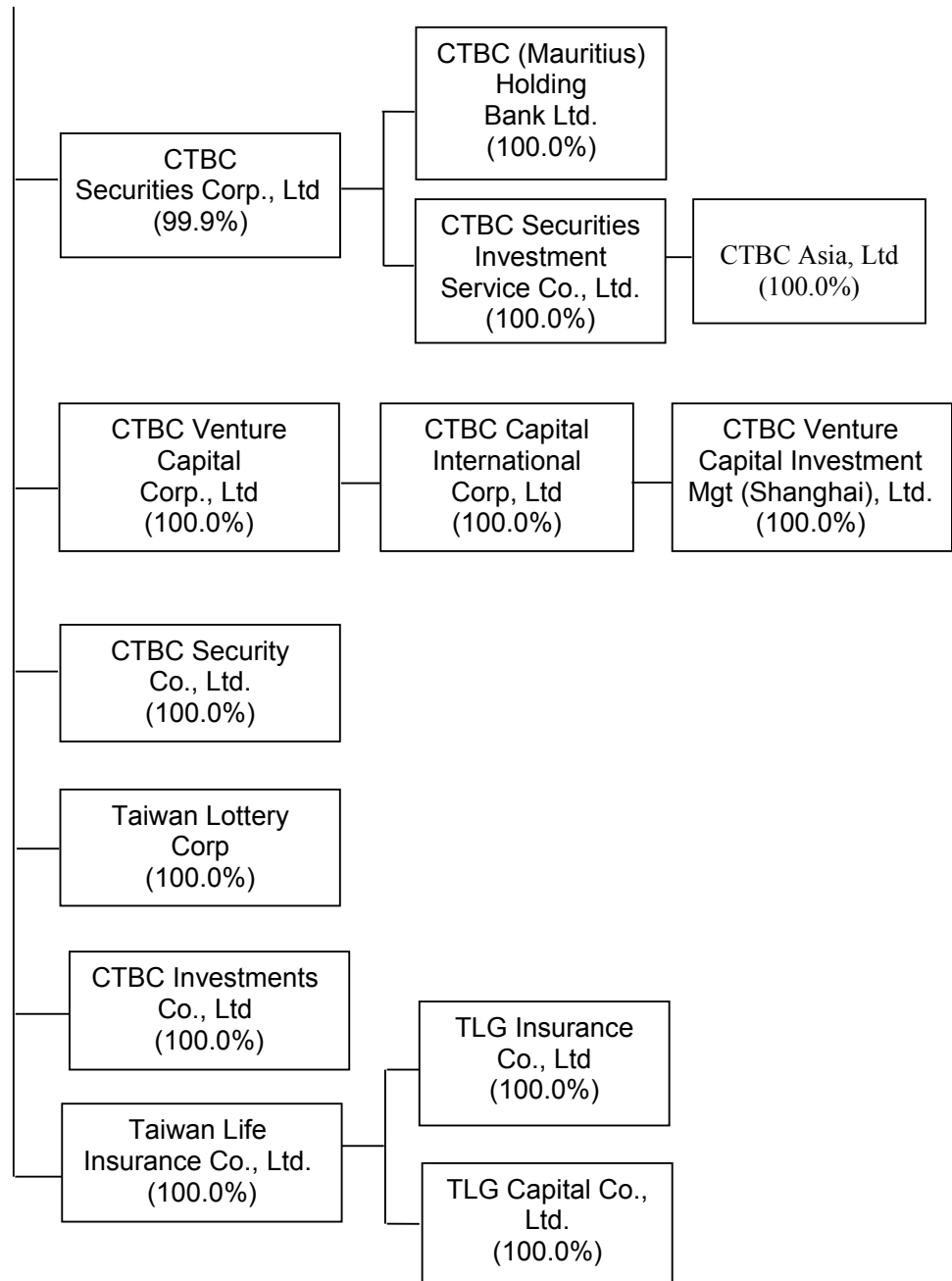
RELATIONSHIP MAP
DECEMBER 31, 2016

Below is a map showing the relationship between and among the Group and its ultimate parent Bank, subsidiaries, and associates as of December 31, 2016:



(Forward)

SCHEDULE IV



CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED
BY ANNEX 68-E
DECEMBER 31, 2016

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II,” respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by SRC Rule 68 and 68.1 as amended that are relevant to the Bank. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

Financial Assets

Below is the detailed schedule of financial assets in equity and debt securities of the Bank as of December 31, 2016:

Name of Issuing Entity and Association of Each Issue	Number of Shares	Amount Shown in the Statement of Financial Position	Value Based on Market Quotation at End of Year	Interest Income
Financial Assets at FVPL				
Quoted debt securities:				
Government (PHP)	n/a	P375,021,209	P375,021,209	P14,322,208
Government (USD)	n/a	-	-	4,061,137
Sub-total		P375,021,209	P375,021,209	18,383,345
PSALM (PHP)	n/a	43,496,472	43,496,472	638,480
Total		418,517,681	418,517,681	19,021,825
Derivative assets	n/a	148,575,404	148,575,404	-
		P567,093,085	P567,093,085	P19,021,825
AFS Investments				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P -	P -	P41,412
RLC (PHP)	n/a	-	-	1,223,879
DBP (USD)	n/a	55,022,638	55,022,638	2,277,600
SMINV (USD)	n/a	50,958,028	50,958,028	3,079,697
Philippine Government (USD)	n/a	844,891,960	844,891,960	11,671,578
Total		950,872,626	950,872,626	18,294,166
Unquoted equity securities:				
BANCNET	50,000	6,940,717	n/a	-
PCHC	21,000	5,000,100	n/a	-
Total		11,940,817		
Club shares accounted as AFS equity investments:				
Orchard Gold and Country Club	1	240,000	240,000	-
Subic Bay Yacht Club Corporation	1	160,000	160,000	-
Total		400,000	400,000	-
		P963,213,443	P951,272,626	P18,294,166
HTM Investments				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P54,465,112	P54,250,980	P1,990,807
Philippine Government (USD)	n/a	475,954,284	487,139,655	9,798,790
Total	n/a	P530,419,396	P541,390,635	P11,789,597

SCHEDULE V**Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**

Name of Debtor	Beginning Balance	Additions	Collections	Ending Balance
Employee Loans/Total	P22,742,993	P16,508,101	(P15,100,986)	P24,150,108

Capital Stock

Below is the composition of the Bank's capital stock (in thousands):

	Shares	Amount
Common stock - P10 par value		
Authorized	300,000	P3,000,000
Issued and fully paid		
Balance at beginning and end of the year	247,969	2,479,687

SCHEDULE VI

SCHEDULE VI: Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements.

Name and Designation of Debtor	Balance at Beginning Period	Additions	Amounts Collected	Amounts Written Off	Current	Noncurrent	Balance at End of Period
None to report							

Amendment to PFRS 7, Disclosure: Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangements of 'similar agreement,' irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a. Gross amounts of those recognized financial assets and recognized financial liabilities;
- b. Amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statements of financial position;
- c. Net amounts presented in the statements of financial position;
- d. Amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32;
 - Amounts related to financial collateral (including cash collateral); and
- e. Net amount after deducting the amounts in (d) from the amounts in (c) above.

Pursuant to the amendments to PFRS 7 requiring the Bank to disclose information about rights to offset and related arrangements, the Bank's financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2016 and 2015 are as follows (in millions):

	2016					
	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Statement of Financial Position	Net Amounts of Financial Assets Presented in the Statement of Financial Position	Related Amounts not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
Financial Assets						
Derivatives-trading assets	P149	P -	P149	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements	-	-	-	-	-	-
Loans and receivables	-	-	-	1,072	1,072	-
Total	P149	P -	P149	P1,072	P1,072	P -
Financial Liabilities						
Derivatives-trading liabilities	P33	P -	P33	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
Total	P33	P -	P33	P -	P -	P -

SCHEDULE VII

2015						
	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Statement of Financial Position	Net Amounts of Financial Assets Presented in the Statement of Financial Position	Related Amounts not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
Financial Assets						
Derivatives-trading assets	P82	P -	P82	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements	-	-	-	-	-	-
Loans and Receivables	-	-	-	751	751	-
Total	P82	P -	P82	P751	P751	P -
Financial Liabilities						
Derivatives-trading liabilities	P46	P -	P46	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits						
Total	P46	P -	P46	P -	P -	P -

The gross amounts of recognized financial assets and financial liabilities and their net amounts as presented in the statements of financial position are on the following basis:

- Derivative assets and liabilities - fair value;
- Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing - amortized cost;
- Loans and advances to customers - amortized cost; and
- Customer deposits - amortized cost.

The amounts that are offset in the statements of financial position are measured on the same basis.

SCHEDULE VII

The tables below reconcile the 'net amounts of financial assets and financial liabilities presented in the statements of financial position,' as set out above, to the line items presented in the statements of financial position are as follows (in millions):

2016					
Types of Financial Assets	Note	Net Amounts	Line Item in The Statement of Financial Position	Carrying Amount in Statement of Financial Position	Financial Assets not in Scope of Offsetting Disclosures
Derivative-trading assets	7	P149	Financial assets at FVPL	P -	P -
Derivatives held for risk management		-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements		-	-	-	-
Loans and receivables		-	Loans and receivables	-	-
Financial Liabilities					
Derivative-trading liabilities		33	Derivative liabilities	-	-
Sale and repurchase securities lending and similar agreements		-	-	-	-
Derivatives held for risk management		-	-	-	-
Customer deposits		-	-	-	-
2015					
Types of Financial Assets	Note	Net Amounts	Line Item in The Statement of Financial Position	Carrying Amount in Statement of Financial Position	Financial Assets not in Scope of Offsetting Disclosures
Derivative-trading assets	7	P82	Financial assets at FVPL	P -	P -
Derivatives held for risk management		-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements		-	-	-	-
Loans and receivables	8	-	Loans and receivables	-	-
Financial Liabilities					
Derivative-trading liabilities		46	Derivative liabilities	-	-
Sale and repurchase securities lending and similar agreements		-	-	-	-
Derivatives held for risk management		-	-	-	-
Customer deposits		-	-	-	-

I s b o = p e b b q =
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	O	9	5	0	0	8	8	1	4
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COMPANY NAME

[illegible]

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

[illegible]

Form Type

A A F S

Department requiring the report

□

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address

--	--

Company's Telephone Number/s

Mobile Number

No. of Stockholders

110

Annual Meeting (Month / Day)

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Andre P. Payawal

Email Address

Telephone Number/s

811-8509

Mobile Number

CONTACT PERSON'S ADDRESS

--

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2. All Boxes must be properly and completely filled up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

ANNEXES

(Additional Disclosures not included in the
SEC 2016 Annual Report)

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ANNEX 1: Risk Management System & Structure

BANK'S RISK PHILOSOPHY

The Bank operates according to its established risk philosophy, where the Board is responsible for approving, reviewing, supervising, and overseeing the Bank's risk strategy, policies, appetite and limits. Following the Board's instruction, the Bank's senior management team and various risk management committees set up independent risk management functions and make sure the risks are being properly understood, controlled and managed, in addition to the risk processes which must be clearly aligned with the Bank's business strategies.

This risk philosophy serves as basis for the establishment of its risk management system.

RISK MANAGEMENT COMMITTEE

The Board organized the Risk Management Committee to ensure that the Bank is able to manage its risks taking activities so that it can position itself for better opportunities.

The Risk Management Committee is responsible for the development and oversight of the Bank's Risk Management Program. It provides the general direction and defines the risk philosophy of the Bank.

It oversees the system of limits on discretionary authority that the Board delegates to management, who will ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

The Committee shall review and approve CTBC Bank (Phils.), Internal Capital Adequacy Assessment Process. This also includes the review of the Bank's Risk Capital Framework (credit, market, liquidity and operational risks), including significant inputs and assumptions.

The core responsibilities of the Risk Management Committee are:

1. **Identify and evaluate risk exposures** – The Committee shall assess the probability of each reported risk becoming reality including the reported estimate of possible effect and cost. Priority areas of concern are those risks that are most likely to occur and with high adverse impact to the bank when they happen.

2. **Develop risk management strategies** – The Committee shall approve a written plan defining the strategies for managing and controlling the major risks. It shall approve recommended practical strategies to mitigate the risks, avoid and minimize losses if the risk becomes real.

3. Establish and appropriate credit risk environment – The Risk Management Committee shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of the Bank. The Committee shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in the Bank's products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which shall be reported to it for appropriate action.

4. Oversee the implementation of the risk management plan – The Risk Management Committee shall direct the dissemination of the risk management plan and loss control procedures to all affected parties. The Committee shall conduct regular discussions on the institution's current risk exposure based on regular management reports and direct concerned units or offices on how to reduce these risks.

5. Review and revise the plan as needed – The Committee shall evaluate the risk management plan to ensure its continued relevancy, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The Committee shall report regularly to the Board of Directors the entity's over-all risk exposure, actions taken to mitigate the risks, and recommend further action or plans as necessary.

6. Review and update the Risk Management Committee Charter periodically or as deemed necessary.

7. Review and evaluate Chief Risk Officer performance annually.

8. Endorse for confirmation of Board of Directors the Performance Rating of the CRO.

9. Perform oversight functions over the IT Steering Committee (ITSC) – The Risk Management Committee shall oversee the ITSC function and regularly provide adequate information to the Board regarding IT performance, status of major IT projects or other significant issues to enable the Board to make well-informed decisions about the Bank's IT Operations.

Composition:

The Committee shall be composed of at least three (3) members of the Board of Directors including at least one (1) independent director, and a chairperson who is a non-executive member. The members shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are take whenever limits are breached. The Bank's risk management units and the

Chief Risk Officer shall communicate formally and informally to the Committee any material information relative to the discharge of its function.

The Risk Management Committee, shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

The Chief Risk Officer being directly reporting to the Risk Management Committee has the following roles and responsibilities:

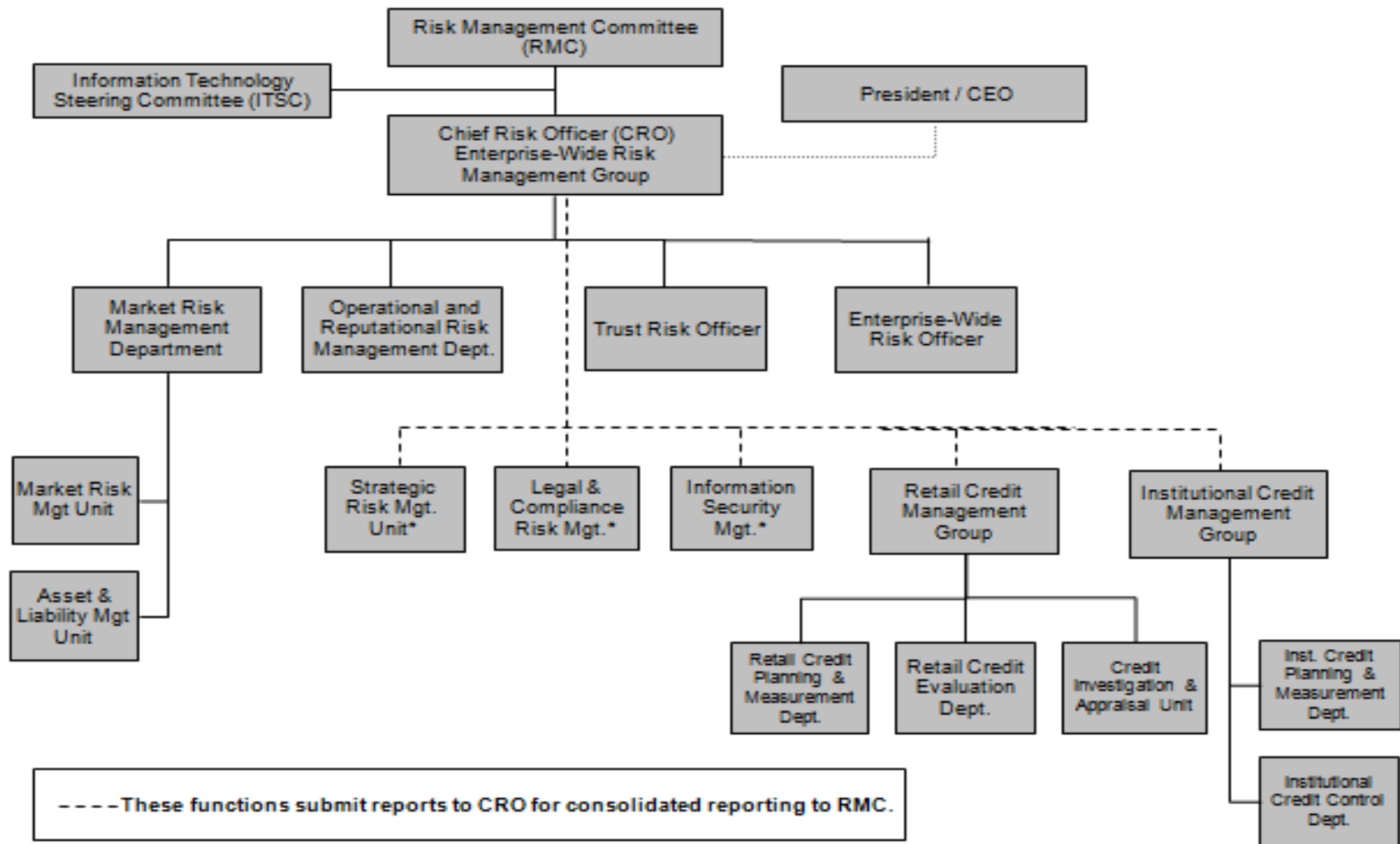
- To be actively engaged in the process of setting risk measures and limits for the various business lines and monitoring their performance relative to risk taking and limit adherence. Ongoing monitoring of the risk-taking activities and risk exposures to ensure they are in line with the board-approved risk appetite, risk limits and corresponding capital or liquidity needs (i.e., capital planning)
- To provide independent oversight function on credit risk management organization, including, but not limited to, the following:
 - a. Risk management and control functions that are independent from the credit originating and administration functions.
 - b. Meaningful inputs in policy formulation and limits setting, design and implementation of the Bank's internal credit risk rating systems by way of endorsement of credit policies, guidelines and procedures.
 - c. Periodic exposure and exception monitoring by way of the review of credit risk management reports.
 - d. Review of the validation of Internal Rating System and Credit Scoring Models on a regularly basis.
 - e. Problem loan management by way of attendance at Credit Committee meeting.
 - f. Unbiased assessment of the quality of individual credits and aggregate credit portfolio, including appropriateness of credit risk rating, classification and adequacy of allowance for loan losses by way of independent credit review.
- To evaluate annually the Bank's internal risk control framework through ICAAP process to satisfy itself on the design and completeness of the framework relative to the Bank's activities and risk profile.
- To consider and recommend to the BOD for approval, through the Risk Management Committee, the Bank's risk tolerance and in particular:
 - To recommend to the Board on an annual basis the Bank's risk tolerance, including risk type limits for Institutional Credit Risk, Retail Credit Risk, Liquidity Risk and Market Risk for the following year; and

- To consider any breaches of the Bank's risk tolerance and each of the approved risk type limits and to recommend whether the Board should approve the reduction plan and/or ratify the excess request.
- To evaluate the Bank's risk profile and risk monitoring, in particular with respect to the following:
 - Risk appetite;
 - Performance vs. risk tolerance;
 - Risk trends;
 - Risk concentrations;
 - Allowance for loan losses;
 - Key performance indicators for risk; and
 - Capital adequacy
- To review the Bank's liquidity profile and recommend the overall liquidity risk framework (including risk tolerance) to the Board, including the results of different stress tests and test assumptions.
- To evaluate the appropriateness of the Bank's risk measurement systems such as, but not limited to, the following :
 - Daily Value at Risk and any significant credit risk measurement system such as Internal Rating System
 - Risk and Control Self-Assessment (RCSA) of Operational Risk.
- Undertake other duties/functions that may be assigned.

The Chief Risk Officer shall be appointed and replaced with prior approval of the Board of Directors. In case of replacement, the Bank shall report to Supervision and examination Sector of BSP within five (5) days from the time it has been approved by the Board of Directors.

RISK MANAGEMENT ORGANIZATION

AS of December 2016



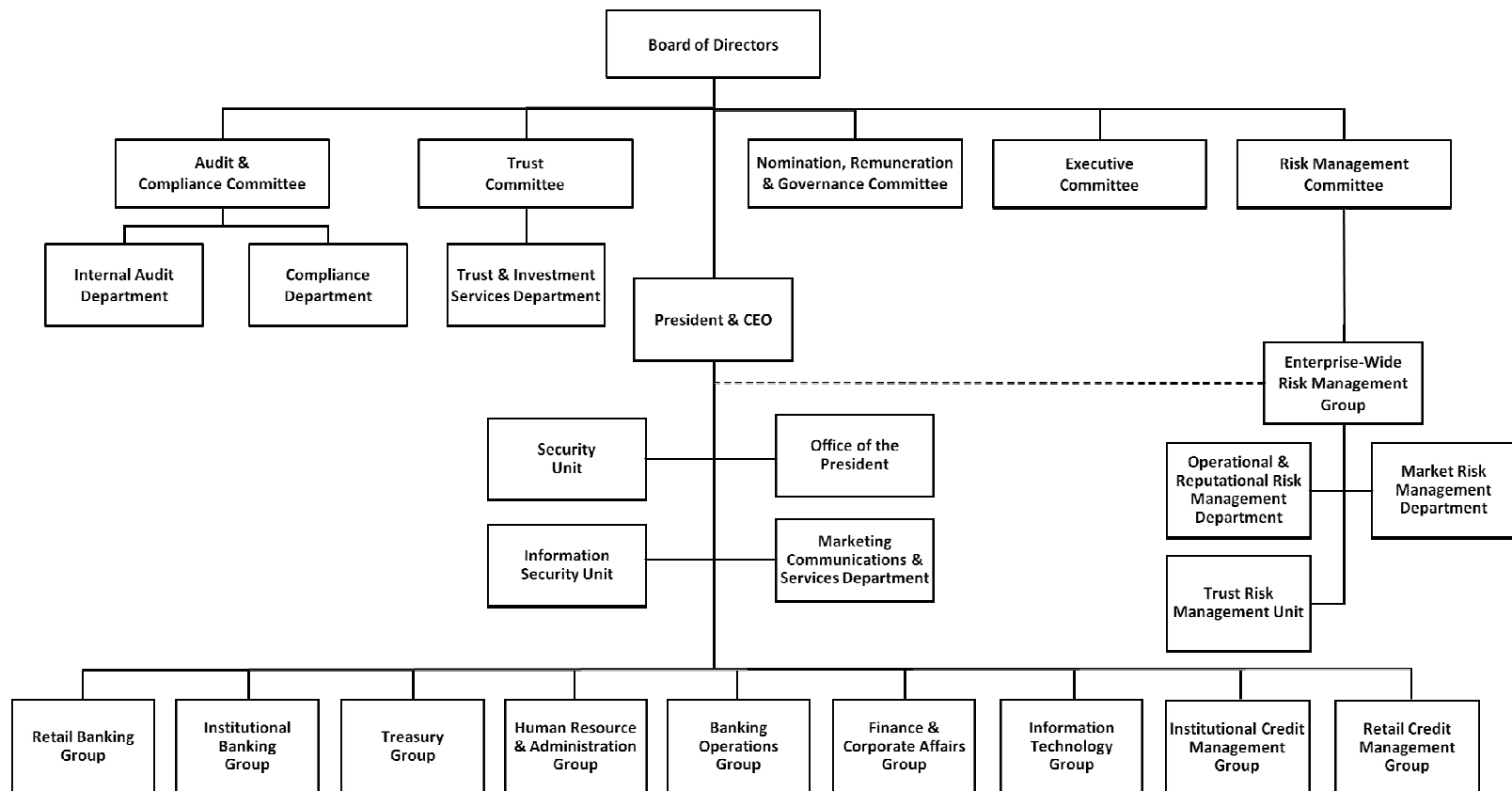
The following are the different Risk Groups governed by the CRO:

- Office of the CRO
- Market Risk Management Department (MRMD)
 - ✓ MRMD manages the market risk, liquidity risk and interest rate risk in the banking book. It sets limits by taking into account the market predictions, capital, annual budgets, experience of the risk taking units and the Bank's risk appetite.
 - ✓ Review Assets and Liabilities management.
 - ✓ Endorse Market, Liquidity Risks, and IRRBB policies and oversee the effectiveness and administration of such policies.
 - ✓ Review and establish parameters for Market, Liquidity Risks, and IRRBB and evaluate compliance with such limit.
 - ✓ Provide oversight of management and guidance to the Board on Market and Liquidity Risks and related issues.
 - ✓ Review and recommend to the Board the appropriate Liquidity levels.
 - ✓ Recommend to Treasury the Contingency Funding Plan.
- Operational and Reputational Risk Management Department (ORRMD)
 - ORRMD handles the consolidation of all risks reported by each risk monitoring unit. All risks are assessed, evaluated, monitored and reported to the Risk Management Committee with appropriate recommendations as consolidated by the Department. Also, ORRMD ensures the implementation of all Risk Management Committee policies and directives.
 - ORRMD is also accountable for operational risk monitoring and management of the Bank.
 - It reviews the important strategies and policies; periodically review operational risk reports and monitor the execution of action plan for major operational risk event.
 - Promote the risk-aware organization culture, develop and continuously improve the operational risk management framework and approach, establish risk assessment approach, establish operational risk indicators and monitor the change of operational risk.
 - Supervision of the softer risks like the reputational risk management is part of the ORRMD functions.

Bankwide Organizational Structure

31 December 2016

CTBC Bank (Philippines) Corp.



ANNEX 3: CAPITAL STRUCTURE & CAPITAL ADEQUACY

The Bank's capital adequacy ratio (CAR), as of December 31, 2016, is at 22.549%. This is above the minimum CAR requirement of 10%. The CAR is expressed as a percentage of qualifying capital to risk-weighted assets.

The total qualifying capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprise Common Equity Tier 1 (CET1), made up of common stock, additional paid-in capital and surplus, and other comprehensive income, such as unrealized gain/loss and cumulative foreign currency translation adjustment. CET1 is adjusted further by deducting the treasury shares, any unsecured DOSRI and deferred tax asset. On the other hand, Tier 2 capital comprises mainly the general loan loss provisions. As of year-end, total Tier 1 and Tier 2 capital, amount to Php6,660.612MM and Php265.978MM, respectively.

Total Risk Weighted Assets (RWA) are calculated using the standardized approach for credit & market risk, while basic indicator approach was used for operational risk. Total RWA under the Pillar I is Php30,718.187MM. Breakdown is indicated in the table below.

To compute for the CET1 ratio, Tier1 ratio, and the capital adequacy ratio of the Bank, the relevant qualifying capital is divided over the total RWA. Details as follows:

The Capital Adequacy Ratio, as of December 31, 2016

Nature of Item	Calculation	Amount In Millions PHP	
A. Qualifying Capital			
Tier 1 Capital	T1= CET1 + AT1	6,660.612	
<i>Common Equity Tier 1 Capital</i>	CET1	6,660.612	See Breakdown
<i>Additional Tier 1 Capital</i>	AT1	0.000	See Breakdown
Tier 2 Capital	T2	265.978	See Breakdown
Total Qualifying Capital (QC)	T1 + T2	6,926.590	
B. Total Risk Weighted Assets			Minimum Capital Requirement
Total Credit Risk-Weighted Assets	CRWA	26,576.351	2,657.635
Total Market Risk-Weighted Assets	MRWA	460.482	46.048
Total Operational Risk-Weighted Assets	ORWA	3,681.355	368.136
Total Risk-Weighted Assets (RWA)	CRWA + MRWA + ORWA	30,718.188	3,071.819
C. RISK-BASED CAPITAL ADEQUACY RATIO			
Common Equity Tier 1 Ratio	CET1 / Total RWA	21.683%	
<i>of which 15.683 % is Capital Conservation Buffer</i>	CET1 Ratio - 6%		
Tier 1 Capital Ratio	Tier1 / Total RWA	21.683%	
Total Capital Adequacy Ratio	Total QC / Total RWA	22.549%	

ANNEX 3

Capital Structure & Capital Adequacy

Breakdown of Qualifying Capital

Item	Nature of Item	Amount (In Millions PHP)
A. Tier 1 Capital		
A.1 Common Equity Tier 1 (CET1) Capital		6,920.740
(1) Paid-up common stock	2,479.687	
(2) Additional paid-in capital	53.514	
(3) Retained earnings	4,292.412	
(4) Undivided profits	80.824	
(5) Other comprehensive income	14.303	
(i) Net unrealized gains or losses on AFS securities		-28.910
(ii) Cumulative foreign currency translation		29.705
(iii) Retirement benefit		13.509
A.2 Regulatory Adjustments to CET1 Capital		260.129
(1) Common stock treasury shares	15.952	
(2) Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	5.277	
(3) Deferred tax assets	238.900	
A.3 TOTAL COMMON EQUITY TIER 1 CAPITAL (A.1 minus A.2)		6,660.612
A.4 Additional Tier 1 (AT1) Capital		0.000
A.5 Regulatory Adjustments to Additional Tier 1 (AT1) Capital		0.000
A.6 TOTAL ADDITIONAL TIER 1 CAPITAL (A.4 minus A.5)		0.000
A.7 TOTAL TIER 1 CAPITAL (Sum of A.3 and A.6)		6,660.612
B. Tier 2 (T2) Capital		
B.1 (1) General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	265.978	
B.2 TOTAL TIER 2 CAPITAL		265.978
C. TOTAL QUALIFYING CAPITAL (Sum of A.7 and B.2)		6,926.590

ANNEX 3

Capital Structure & Capital Adequacy

RECONCILIATION OF THE REGULATORY CAPITAL BACK TO THE BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENT

Item	Nature of Item (In Millions PHP)	Regulatory Capital	Reconciling Items	Audited Financial Statements	Adjustments for regulatory compliance
A. Tier 1 Capital					
A.1	Common Equity Tier 1 (CET1) Capital	6,920.740	224.365	7,145.105	
	(1) Paid-up common stock	2,479.687	0.000	2,479.687	
	(2) Additional paid-in capital	53.514	0.000	53.514	
	(3) Retained earnings	4,292.412	91.980	4,384.392	Difference in the impairment methodology.
	(4) Undivided profits	80.824	132.223	213.047	
	(5) Other comprehensive income	14.303	0.161	14.465	
	(i) Net unrealized gains or losses on AFS securities	-28.910	-0.016	-28.926	Reclassification of AFS Securities to Other Investment.
	(ii) Cumulative foreign currency translation	29.705	0.177	29.882	Cumulative translation for adjustments on FCY accounts to comply with BSP regulatory requirement
	(iii) Retirement benefit	13.509	0.000	13.509	
	LESS:				
A.2	Regulatory Adjustments to CET1 Capital	260.129	-244.177	15.952	
	(1) Common stock treasury shares	15.952	0.000	15.952	
	(2) Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	5.277	-5.277	Not Applicable (NA)	Forms part of the balance sheet assets.
	(3) Deferred tax assets	238.900	-238.900	NA	Forms part of the balance sheet assets.
A.3	TOTAL COMMON EQUITY TIER 1 CAPITAL (A.1 minus A.2)	6,660.612	468.541	7,129.153	
A.4	Additional Tier 1 (AT1) Capital	0.000	0.000	0.000	
A.5	Regulatory Adjustments to Additional Tier 1 (AT1) Capital	0.000	0.000	0.000	
A.6	TOTAL ADDITIONAL TIER 1 CAPITAL (A.4 minus A.5)	0.000	0.000	0.000	
A.7	TOTAL TIER 1 CAPITAL (Sum of A.3 and A.6)	6,660.612	468.541	7,129.153	

ANNEX 3

Capital Structure & Capital Adequacy

Item	Nature of Item (In Millions PHP)	Regulatory Capital	Reconciling Items	Audited Financial Statements	Adjustments for regulatory compliance
B. Tier 2 (T2) Capital					
B.1	(1) General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	265.978	-265.978	NA	Forms part of the balance sheet assets.
B.2	TOTAL TIER 2 CAPITAL	265.978	-265.978	0.000	
C. TOTAL CAPITAL (Sum of A.7 and B.2)		6,926.590	202.564	7,129.153	

ANNEX 4: CREDIT RISK**A. QUANTITATIVE INFORMATION, as of December 31, 2016****1. Breakdown of Credit Risk Weighted Assets**

Credit Risk-Weighted Assets	Amount in Millions PHP
On-Balance Sheet Assets	23,437.125
Assets in the Trading Book (Derivatives and Repo-style Transactions)	214.338
Off-Balance Sheet Assets	2,946.311
Total Gross Risk-Weighted Assets	26,597.774
Deductions : General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]	21.423
Total Credit Risk-Weighted Assets	26,576.351

2. Credit Risk Exposures : On-Balance Sheet Assets

EXPOSURE TYPE (In Millions PHP)	Exposures not Covered by CRM	TOTAL RISK WEIGHTED EXPOSURES
Sovereign Exposures	9,130.740	660.423
Sovereign Exposures - Non Res	0.000	0.000
Multilateral Development Banks	0.000	0.000
Bank (excluding loans)	2,226.226	949.700
Interbank Loans	0.000	
Interbank Call Loans	0.000	0.000
Interbank Term Loans	480.828	240.414
Local Government Units	0.000	0.000
Government Corporation	0.000	0.000
Corporate Exposures	16,046.949	16,046.949
Micro, Small, and Medium Enterprise	0.000	0.000
Housing Loans	1,202.193	642.143
Loans to Individuals	3,801.394	3,801.394

EXPOSURE TYPE (In Millions PHP)	Exposures not Covered by CRM	TOTAL RISK WEIGHTED EXPOSURES
Defaulted Exposures		
Housing Loans	0.556	0.556
Loans other than Housing Loans	47.057	70.585
Other Defaulted Exposures	0.000	0.000
ROPA	198.750	298.124
Other Exposures		
Cash on Hand	424.624	0.000
Cash & Other Cash Items	3.442	0.688
Other Assets	726.148	726.148
TOTAL	34,288.907	23,437.125

ANNEX 4

Credit Risk

Breakdown per Exposure Type & Risk Buckets

EXPOSURE TYPE (In Millions PHP)	Exposures, Net of Specific Provisions	Exposures Covered by CRM 2/	Exposures not Covered by CRM	Risk Weights							TOTAL RISK WEIGHTED EXPOSURES
				0%	20%	50%	75%	100%	150%	TOTAL	
	1	2	3=1-2	4	5	6	7	8	9	[Sum of 4 to 9]	
Sovereign Exposures	9,130.740	0.000	9,130.740	7,809.894	0.000	1,320.846	0.000	0.000	0.000	9,130.740	660.423
Sovereign Exposures - Non Res	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Multilateral Development Banks	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Bank (excluding loans)	2,226.226	0.000	2,226.226	0.000	783.535	1,299.398	0.000	143.294	0.000	2,226.226	949.700
Interbank Loans			0.000								
Interbank Call Loans	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Interbank Term Loans	480.828	0.000	480.828	0.000	0.000	480.828	0.000	0.000	0.000	480.828	240.414
Local Government Units	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Government Corporation	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Corporate Exposures	17,117.307	1,070.358	16,046.949	0.000	0.000	0.000	0.000	16,046.949	0.000	16,046.949	16,046.949
Micro, Small, and Medium Enterprise	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Housing Loans	1,202.193	0.000	1,202.193	0.000	0.000	1,120.099	0.000	82.093	0.000	1,202.193	642.143
Loans to Individuals	3,801.394	0.000	3,801.394	0.000	0.000	0.000	0.000	3,801.394	0.000	3,801.394	3,801.394
Defaulted Exposures											
Housing Loans	0.556	0.000	0.556	0.000	0.000	0.000	0.000	0.556	0.000	0.556	0.556
Loans other than Housing Loans	47.057	0.000	47.057	0.000	0.000	0.000	0.000	0.000	47.057	47.057	70.585
Other Defaulted Exposures	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
ROPA	198.750	0.000	198.750	0.000	0.000	0.000	0.000	0.000	198.750	198.750	298.124
Other Exposures											
Cash on Hand	424.624	0.000	424.624	424.624						424.624	0.000
Cash & Other Cash Items	3.442	0.000	3.442		3.442					3.442	0.688
Other Assets	726.148	0.000	726.148	0.000	0.000	0.000	0.000	726.148	0.000	726.148	726.148
TOTAL	35,359.265	1,070.358	34,288.907	8,234.518	786.977	4,221.171	0.000	20,800.435	245.806	34,288.907	23,437.125

1/ Risk weight used is based on the external credit assessment institutions like Standard & Poor's, Moody's, and Fitch's credit rating.

2/ Credit risk mitigants are mainly cash deposit collateral.

ANNEX 4

Credit Risk

3. Credit Risk Exposures: Assets In the Trading Book (Derivatives & Repo Style Transaction)

EXPOSURE TYPE (Amounts in P0.000 million)	NOTIONAL AMOUNT	Credit Equivalent Amount	Risk Weights 1/							TOTAL RISK WEIGHTED
			0%	20%	50%	75%	100%	150%	TOTAL	
Exchange Rate Contracts										
Banks	2,694.505	36.239	0.000	2.101	17.309	0.000	16.830	0.000	36.239	25.904
Corporates	5,214.935	188.433	0.000	0.000	0.000	0.000	188.433	0.000	188.433	188.433
TOTAL	7,909.440	224.673	0.000	2.101	17.309	0.000	205.263	0.000	224.673	214.338

1/ Risk weight used is based on the external credit assessment institutions like Standard & Poor's , Moody's, and Fitch's credit rating.

4. Credit Risk Exposures : Off- Balance Sheet Assets

EXPOSURE TYPE (Amounts in Millions PHP)	Notional Principal Amount	Credit Conversion Factor (CCF)	Credit Equivalent Amount	Risk Weight 1/	Credit Risk Weighted Assets
Financial standby letters of credit - domestic	136.004	100%	136.004	100%	136.004
Financial standby letters of credit - foreign	1,963.940	100%	1,963.940	100%	1,963.940
Performance Standby LCs – domestic (net of margin deposit) established as a guarantee that a business transaction will be performed	548.910	50%	274.455	100%	274.455
Performance Standby LCs – foreign (net of margin deposit) established as a guarantee that a business transaction will be performed	231.695	50%	115.848	100%	115.848
Trade related guarantees – shipside bonds/airway bills	174.702	20%	34.940	100%	34.940
Sight LCs - domestic (net of margin deposit)	36.785	20%	7.357	100%	7.357
Sight LCs - foreign (net of margin deposit)	100.072	20%	20.014	100%	20.014
Usance LCs - domestic (net of margin deposit)	6.810	20%	1.362	100%	1.362
Usance LCs - foreign (net of margin deposit)	512.969	20%	102.594	100%	102.594
Committed credit lines for commercial papers issued	1,448.983	20%	289.797	100%	289.797
Other commitments which can be unconditionally cancelled at any time by the bank without prior notice and those not involving credit risk	13,111.345	0%	0.000	100%	0.000
Spot foreign exchange contracts (bought and sold)	575.705				
Late deposits/payments received	2.175				
Inward bills for collection	1,501.395				
Outward bills for collection	7.060				
Trust department accounts	1,617.017				
Items held for safekeeping/custodianship	2.497				
Items held as collaterals	0.002				
Others	9,405.494				
Total Notional Principal Amount	18,272.215				
TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ASSETS					2,946.311

1/ Risk weight used is based on the external credit assessment institutions like Standard & Poor's, Moody's, and Fitch's credit rating.

B. QUALITATIVE INFORMATION

Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and consumer loans (customer credit risk) and investment securities (issuer credit risk). Assessment of credit risk varies based on the types of the loan or financial transaction. For consumer loans, credit risk is measured at a portfolio level. However, identification of risk is determined on customer segment performance to derive risk-ranking determinants that constitute the formulation of the credit application scorecard. To ensure consistency in the identification of credit risk, scorecard performance is reviewed monthly to assess its efficiency in its risk determination function.

Credit risk management will be discussed in two parts:

1. Credit Risk covering Corporate Loans – managed and controlled by Institutional Credit Management Group (ICMG).
2. Credit Risk covering Retail Loans - managed and controlled by Retail Credit Management Group (RCMG).

CREDIT RISK COVERING CORPORATE LOANS**I. Strategies & Processes**

ICMG manages the credit risk arising from the Bank's corporate loan business. It formulates credit policies and guidelines based on regulatory standards and the Bank's own risk appetite. Likewise, it ensures that the management of credit in the corporate loan portfolio is in compliance to all credit policies and guidelines.

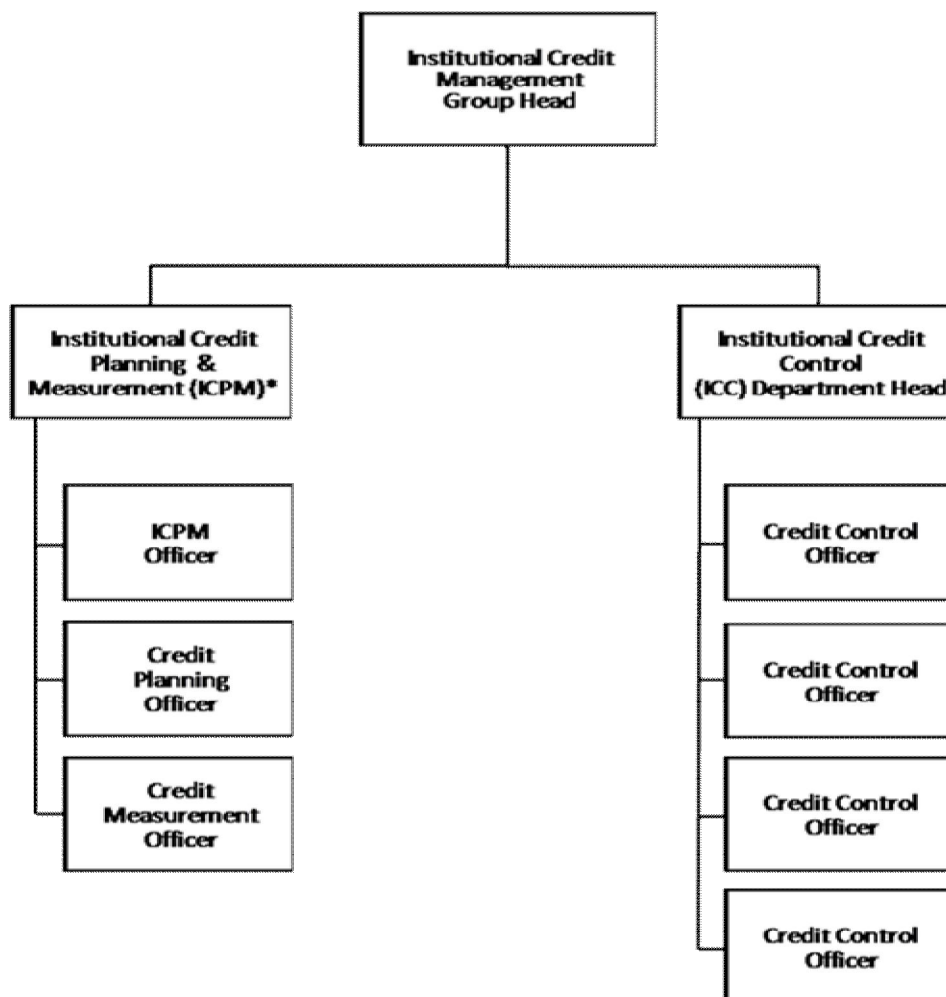
Each credit proposal undergoes an evaluation process in order to determine its acceptability. The evaluation process involves the identification of credit risks after having assessed key factors including, target market/industry, management, appropriateness of credit facilities, terms and conditions, financial performance and condition, collateral and others.

The credit risk identification framework also consists of an internal risk rating system that has a blend of both quantitative and qualitative factors. The Obligor's risk rating ranges from ORR 0 to 17, with ORR 0 being the best and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

Sample table of the ORR is as follows:

Category	ORR	Moody's Equivalent Grades
Investment Grades	0	Applicable to only the central government, central Bank and their agencies of the Republic of China and sovereign states with S&P medium- and long-term ratings at AA- or higher, or multilateral development banks with risk weights at 0% approved by the Basel Committee on Banking Supervision.
	1	Aa3 or higher
	2	A1 ~ A3
	3	Baa1
	4	Baa2
	5	Baa3
Sub-Investment Grades	6	Ba1
	7	Ba2
	8	Ba2*-
	9	Ba3
High-Risk Grades	10	B1
	11	B2
	12	B3
	13	Caa1 ~ Ca
Watch-List Grade	14	
Default Grades	15	
	16	
	17	

II. Structure & Organization



The main responsibilities of the Institutional Credit Management Group are as follows:

- Formulates credit policies and guidelines for the institutional banking business, and oversees the effectiveness and administration of these.
- Establish the parameters for credit risk and concentration, and review compliance with such limits
- Evaluate, endorse or approve credit proposals originating from 61
-
- Review the quality of the Bank's institutional banking portfolio
- Review the adequacy of allowance for loan losses
- Provide guidance to management on credit risks and credit-related issues

III. Scope & Nature of Risk Reporting and Measurement Systems

Loan Review Report (LRR) / Early Warning 1(a) and (b), 2 and 3 (EW1(a) and (b), EW2 and EW3) / Account Planning Reports

One of the Bank's risk monitoring exercises is its semi-annual review of corporate accounts via the Loan Review Report (LRR). Exempted from this are accounts fully-secured by cash or government securities, accounts whose sole credit facility with the Bank is fully secured by unconditional and irrevocable Sovereign Guarantee or under a specific credit/product program, watch-list (EW2/EW3) or classified accounts (Loans Especially Mentioned, Substandard, Doubtful, and Loss), and banks with uncommitted lines. The LRR, accomplished six (6) months after approval date, covers the borrower's relationship with the Bank, updated financial performance, repayment capability, identification of major risks, outlook, etc. It also assesses account classification and ORR. If deterioration in credit is identified, either Institutional Banking Group (IBG) or ICMG have the discretion to include it in any of the Early Warning (EW) buckets, which calls for the submission of a Notification report, quarterly or more frequent LRR (for EW1(a) accounts), and Account Planning reports (for EW1(b), EW2 and EW3 accounts). If deemed appropriate, EW2 and EW3 accounts may be transferred to ARMD for handling. Apart from these, the Relationship Manager (RM) is required to provide updates during Credit Committee meetings.

IBG or ARMD RM (depending on the classified account owner) and Litigation Head of Legal Department are also required to report to the Credit Committee the status of the classified accounts at least twice a month and once a month for an EW account. Depending on the outstanding exposure of an EW1(b)/EW2/EW3 account, the RM regularly prepares the Account Planning reports for approval either of SCO, Credit Committee or Executive Committee. The Account Planning report covers the loan details of the account including the outstanding principal, loan loss provision, the action plan and present status of the account which includes the progress diary enumerating the series of events that took place covering the Account Planning period and financial/operation analysis. The same Account Planning report is referenced for the corresponding BSP classification.

Monthly classified accounts are also being prepared by Credit Administration Dept. (CAD) for senior management guidance covering the list of classified accounts and its corresponding loan loss provision.

Credit Committee convenes at least twice a month to discuss the Corporate Credit Risk Profile including but not limited to the Past Due Loan, Non Performing Loan,

Concentration Risk, Action Plan for each Non Performing account and their corresponding timelines.

As mentioned above, the credit risk identification framework also consists of an internal risk rating system that has a blend of both quantitative and qualitative factors. The Obligor's risk rating ranges from ORR 0 to 17, with ORR 0 being the best and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

IV. Strategies and Processes for Mitigating Risks

Apart from the evaluation process, certain lending and concentration limits and triggers have been established to further strengthen management of risk. These limits and triggers were based on both regulatory standards and the Bank's own risk appetite.

Internal Lending Limit

Limit of SINGLE BORROWER / GROUP (Total Credit Exposure)

- Single Borrower/Group Limit – shall not exceed 100% of SBL (SBL= 25% of CTBC Bank (Phils.) net worth;
- The Single Group definition will be based on BSP's regulation.
- The Total Credit Exposure includes contingent liabilities.

Limit of Real Estate Loans (Total Loan Portfolio, net of IBLR).

- Shall not exceed 20% of the total loan portfolio, net of interbank loans receivable (IBLR);
- Real Estate Industry classification will be based on BSP's regulation on Real Estate Loans.

Limit of Industries (Total Loan Portfolio, net of IBLR)

- The limit ceiling for combined industries under "Monitored Risk" category shall be thirty percent (30%) of the Total Loan Portfolio, net of IBLR.

Notes:

- a. For those conglomerate groups which covers several industries, industry distribution will be proportioned based on the revenue contribution from each industry subject to Head of Institutional Credit Control Department's (ICCD) approval.
- b. Bank Money Market lending to be excluded from IBG loan portfolio.
- c. Industry classification shall be based on the nature of business of the obligor/borrower. However, for individual obligors, industry classification shall be based on the purpose of the loan.
- d. Industry Classification will be based on Philippine Standard Industrial Classification (PSIC) – 2009 edition.
- e. Government Agencies, credit secured by Republic of the Philippines (ROP) or 100% owned by the Government, credit secured by cash deposit, shall be excluded from the limit.

Limit of Top 10 Borrowers (Total IBG Credit Exposure, net of IBLR).

- Shall not exceed 60% of the Total IBG Credit Exposure, net of IBLR.
- Any specific loan exposure of the Top 10 Borrowers which are fully secured by cash deposits, ROP Bonds, or unconditionally guaranteed by Republic of the Philippines (ROP) shall be excluded from the total loan exposure.

The Monitoring Mechanism**Warning Trigger**

Set up warning trigger (90% of the Limit Ceiling) for Single Borrower/Group, Real Estate Loans (RELs), Industries under "Monitored Risk" Category, and for Top 10 Borrowers. Once triggered/breached, appropriate actions must be acted upon by the concerned units.

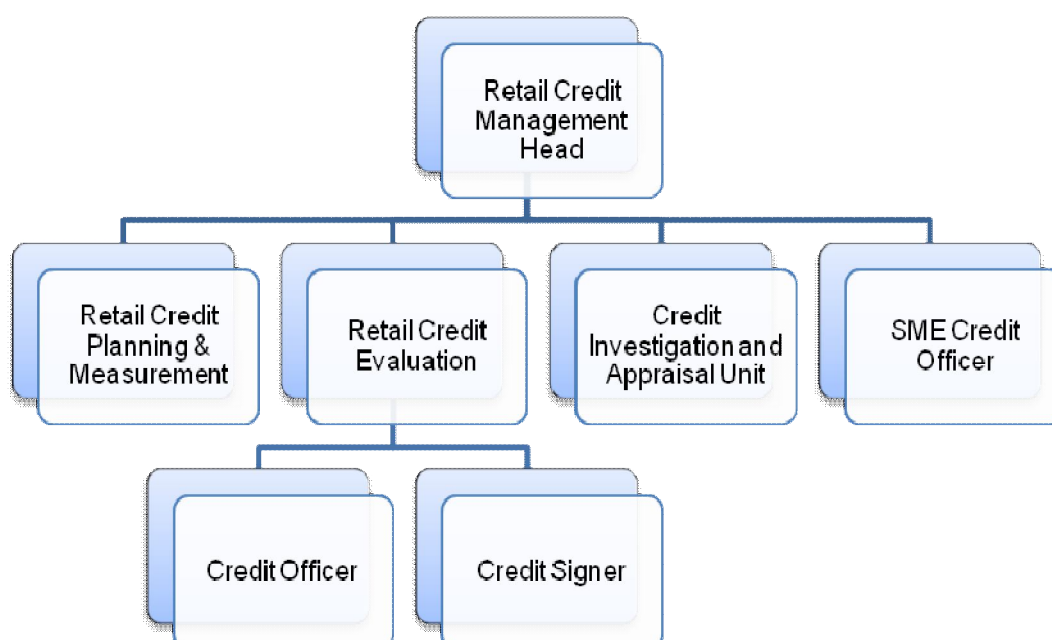
CREDIT RISK COVERING RETAIL LOANS

I. Strategies & Processes

RCMG manages the credit risk arising from the Bank's retail loan businesses. It formulates credit policies based on various portfolio analyses, and is responsible for optimizing the risk-reward relationship of the Personal Loans, Mortgage Loans, and Small and Medium Enterprise (SME) Loans portfolios. Likewise, it ensures that the management of credit risk in the retail loan portfolios are in compliance to all credit policies and regulatory standards.

RCMG also manages the credit risk assessment and acceptance processes to safeguard the credit quality of the retail loan portfolio. It monitors and analyses various risk features and trends of the retail loan portfolio, identifies risk drivers and formulates risk mitigation strategies, accordingly. Results of these regular portfolio reviews are reported to the management team, RMC (Risk Management Committee) and, ultimately, to the BOD.

II. Structure & Organization



The following are the core responsibilities of Retail Credit Management Group as follows:

- a. Review the quality of the Bank's credit portfolio and the factors affecting the portfolio behavior.
- b. Formulate credit policies and oversee the effectiveness, implementation, and administration of these policies.
- c. Evaluate the adequacy of allowance for loan losses.
- d. Establish the credit risk limit parameters and asset concentration and review compliance with such limits.
- e. Provide oversight of management and guidance to the BOD on retail credit risks and credit-related issues.
- f. Manage risk assessment and control in processing retail loan applications.
- g. Conduct credit investigation and appraisal.

RCMG is composed of two departments and one unit to carry out its mandate of managing retail credit risk. In addition, SME Credit Officer directly reports to RCMG head for SME loan evaluation and review.

Retail Credit Planning and Measurement Department (RCPMD)

Reviews and formulates credit policies based on empirical data and sound analyses covering existing portfolios as well as test programs. Policy changes are likewise instituted as a result of supporting new business initiatives, and as a response to changes in market behaviour, as well as changes in regulatory conditions. The team is also responsible in generating various risk monitoring tools such as, but not limited to, monthly asset quality reports and RMC reports, as well as managing scorecard implementation, monitoring and review.

Retail Credit Evaluation Department (RCED)

Handles risk assessment and control in retail loan application processing covering pre-screening, verification, evaluation and decisioning in granting loans to eligible borrowers in the most efficient way possible. Likewise, RCED ensures that changes in policies as it relate to the credit process are implemented, accordingly.

Credit Investigation and Appraisal Unit (CIAU)

Responsible for credit investigation and appraisal. The team observes the CI code of ethics in information validation and data gathering activities to establish the credit worthiness of applicants and customers in the Bank. It is guided by internal policies and generally accepted appraisal principles and techniques in determining collateral value.

III. Scope & Nature of Risk Reporting and Measurement Systems

Retail Credit regularly conducts a portfolio performance review of its retail loan products covering loan origination, account maintenance and account closures. In addition, various portfolio analyses at various levels of granularity are performed to identify the most significant factor/s of defaulting loans, as well as factor/s that lead/s to better portfolio quality.

Risk Reporting

For product and portfolio performance monitoring, review and analysis, the reports are summarized below:

1. Retail Credit Risk Portfolio Review is a tracking of the retail loan portfolio's critical risk indicators on a monthly basis, which includes non-performing loans, delinquency ratios, charge-offs, recoveries, aging flows, portfolio delinquency performance by various segment cuts, scorecard MIS, as well as credit process MIS such as approval rate, reject rate, deviation approval etc.
2. Based on the foregoing, RMC reports are produced and presented to the members of the committee every 2 months. This report contains statistical and analytical data on portfolio growth, portfolio mix, portfolio asset quality indicators as well as through the door information on loan origination and loan portfolio profile.

Measurement Systems

For Personal Loan (Public) product, customized application scorecard and behaviour scorecard are adopted to evaluate the repayment willingness for new applicants and existing customers respectively. For Personal Loan (Corporate) and Mortgage Loan product, the defined product guidelines and procedures are implemented to measure the repayment ability of applicants. For SME product, CSR (Credit Score Rating) and ORR (Obligor's Risk Rate) are used to determine the acceptability of a loan application.

IV. Strategies and Processes for Mitigating Risks

Risk Strategy is performed via a program lending approach for the retail loan business. Set credit parameters for risk acceptance and portfolio limits are established and followed to ensure process efficiency and credit portfolio quality in the course of the credit approval process.

Existing approval authorities are sanctioned based on qualification, competence and capacity. The approving authority hierarchy follows the core credit policy of the parent bank, such that credit delegation is defined functionally by credit officer and senior credit officer levels, by amounts and by risk level per product program/guideline.

The credit approval process for the three retail loan products is summarized as table below:

Process	Personal Loan (Public)	Personal Loan (Corporate)	Mortgage Loan	SME Loan
Pre-screening	Y	Y	Y	Y
Duplicate Check	Y	Y	Y	Y
Policy Check	Y	Y	Y	Y
Credit Scorecard	Y	N	N	Y
Credit Verification	Y	Y	Y	Y
Appraisal	N	N	Y	Y
Deviation Review	Y	Y	Y	Y
Approval / Reject	Y	Y	Y	Y

ANNEX 5: MARKET RISK**A. QUANTITATIVE INFORMATION, as of December 31, 2016**

Item	Nature of Item	Amounts in P0.000 Million
A.	Using Standardized Approach	
A.1	Interest Rate Exposures	182.993
A.2	Equity Exposures	
A.3	Foreign Exchange Exposures	277.489
A.4	Options	0.000
A.5	Sub-total (Sum of A.1 to A.4)	460.482
B.	Using Internal Models Approach	
C.	TOTAL MARKET RISK-WEIGHTED ASSETS	460.482

B. QUALITATIVE INFORMATION**I. Strategies & Processes**

The Bank market risk exposures arise from either trading or non-trading portfolios:

- The trading portfolio includes positions arising from trading activities, which aim at benefiting from short-term price movements, such as proprietary trading and market making.
- The non-trading portfolio includes positions not held for the purpose of earning capital gains.

The Market Risk Management Policy and Asset and Liability Management Policy are the cornerstone of risk management of risk-taking and non-trading purpose activities in the Bank. These policies are developed to establish the Bank's risk management mechanisms, to facilitate risk communication within the Bank, and to provide direction of proper management.

II. Structure & Organization

The RMC supervises the compliance and accomplishment of the Policy and provides the general direction and defines the risk philosophy of the Bank. CRO, independent from executive functions and business line responsibilities, operations and revenue-generating functions, provides independent oversight function on risk management.

Market Risk Management Department (MRMD) is responsible for managing market risk. MRMD performs the second line of defense and bear responsibility of for designing and executing appropriate risk identification, measurement, monitoring, control and reporting. In addition, MRMD developing the market risk management policy and relevant procedures to provide a guideline of Market risk management.

III. Scope & Nature of Risk Reporting and Measurement Systems

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange, equities and commodities. The market liquidity of these types of instruments is also covered. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities and derivatives.

MRMD shall define appropriate and consistent market risk measurement methodologies in line with the business characteristics and risk source to properly evaluate the primary market risk exposure. The measurement results shall be applied to daily management and shall serve as a foundation for market risk planning, monitoring, and controlling. The most common measurements include:

a. Value at Risk, (VAR)

Value at Risk measures the maximum potential loss under a particular confidence interval and a given holding period. VaR is used to express the risk appetite of the Bank. The VaR model has been developed as an independent and reliable quantitative technique for internal risk management purpose.

b. Stress Testing

Stress testing is a risk management technique used to reveal particular vulnerability of the Bank to a given set of stressed circumstances. The stress scenario might include an extreme or large movement of risk factors, volatilities and/or correlations. Stress testing should be in place as a supplement to the VaR analysis to capture the tail risk and to fulfill supervisory examination requirement.

c. Factor Sensitivity

Factor sensitivity is measured to monitor the cross-product exposures within each risk type, including but not limited to foreign exchange and interest rate, equity. PVBP, the change in fair value as the yield curve parallel shifts up by 0.01% (1bp), is used to measure interest rate risk exposures of the Bank's trading portfolios. And FX Delta, the change in net present value as the foreign exchange rate moves up by one unit (100%), is used to measure foreign exchange risk exposure of the Bank's trading portfolios.

MRMU shall submit the market risk management information to the highest ranking risk management executive and relevant senior executives on a daily basis. On top of that, MRMU shall periodically report the integrated market risk profile to the RMC and the Board to evaluate risk concentration and capacity of the Bank and to form necessary risk strategy.

IV. Strategies and Processes for Mitigating Risks

To manage the exposures within the bank's risk appetite, the Bank may reduce the exposure or apply hedging measures upon internal approval to mitigate the overall level of risks of portfolio.

This might include but not limited to

- Adjust risk appetite - Reduce limits to preclude extension of trading losses such as reducing VaR limits, MTD MAT etc.
- Adjust monitoring frequency – Adjust monitoring frequency in case of intraday volatility surge
- Take hedging strategies – Mitigate risk exposure by using hedging instrument such as NDF or FX option to brought down foreign exposure and IRS or CDS to lessen interest rate exposure

ANNEX 6: OPERATIONAL RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2016

Nature of Item	Gross Income (GI)	Capital Charge Factor	Capital Requirement (Capital Charge Factor x GI)
BASIC INDICATOR APPROACH (BIA)			
Year 3	1,944.012	0.150	291.602
Year 2	1,897.666	0.150	284.650
Last Year	2,048.490	0.150	307.273
Average	(Capital Requirement)		294.508
Adjusted Capital Charge	(Average X 125%)		368.136
Risk-weighted Amount	(Adjusted Capital Chg X 10)		3,681.355

B. QUALITATIVE INFORMATION

I. Strategies & Processes

Operational Risk – is the risk of loss arising from direct or indirect loss from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Direct Loss is a result primarily from an operational failure while an Indirect Loss is the consequential impact followed by an operational risk event such as the extra overtime cost for dealing with that event.

Following are the strategies and processes in managing operational risks.

- **Review and Document Policies and Procedures**

In reviewing and documenting policies and procedures, each business and operating unit shall ensure that they have a clear picture and ultimately ensure documentation of the following:

- **Processes** – Include all processes that are being done to ensure complete delivery of the transaction. This covers both client interface processes and internal control.
- **People** – Identify everyone involved in the process, their duties and responsibilities and required competencies.
- **Reports** – That would be needed to assess risk management effectiveness.
- **Methodologies** – Details the tools and activities that would support decision making for critical areas of the process.
- **Systems and Data** – Cite the system and data requirement for the business unit to efficiently manage reports and methodologies employed.

All Business and Operating Units shall ensure that actual practices are consistent with documented policies and procedures (P & P).

- **Risk Identification, Assessment and Monitoring** Risk and Control Self-Assessment, (RCSA)
 - Shall be used to document operational risks by business and functional units. These documents shall identify the material operational risks and the control mechanisms used to manage those risks.
 - Include a description of the controls used to manage the identified risks together with an assessment of the effectiveness of those controls.
 - Accepted risks, comprising risks where CTBC Bank, Phils. has chosen not to control or limit the risk, and risks where there are no controls available to control or limit the risk, shall be identified on the risk profile.
 - Risks shall be ranked on an inherent risk basis with assessments made of likelihood and impact should the risk event occur. Assessment of the likelihood of a risk event occurring shall be based on an analysis of the effectiveness of the control (if existing) and this shall be articulated in the risk profile.

Monitoring and Formulating Action Plans against established standards, via the Key Risk Indicators (KRIs), is an important component in ensuring that these standards are met. There are three units involved in the over-all formulation and monitoring of action plans for all Business and Functional Units.

- Business and Functional Units – They are expected to report the operational exceptions, deviations on the policies and procedures and deficiencies on the documentations and process.
- Operational and Reputational Risk Management Department (ORRMD) – Collates and consolidates the reports from the different business and operating units. They

are also responsible for monitoring, analyzing and reporting operational risk losses and exposures to Management.

- Internal Audit Department (IAD) – Primarily responsible for ensuring that all Operations Units are in compliance with the set of policies and procedures (P and P). They should be able to provide an independent opinion on the effectiveness of established internal controls

• Improve Risk Management Process

After thorough study and analysis of data gathering indicated in the RCSA and KRI, the Bank shall endeavour to improve existing processes, people, reports, methodologies and system. This is to ensure that the following shall be actively encouraged by Operational and Reputational Risk Management Department.

- Benchmarking performance to identify best practices.
- Cross-Functional interactive communication and knowledge sharing.
- Integrating the Bank's risk language, philosophy, policies and practices as part of the employees training programs.

II. Structure & Organization

Operational Risk Management Framework

Roles and Responsibilities

CTBC Bank, Phils. has established a framework of roles and responsibilities consistent with the generally recognized principles of sound Operational Risk Management practice. Ultimate responsibility for the appropriate management of Operational Risk rests with the BOD of CTBC Bank, Phils. The BOD has further delegated the responsibility to the CTBC management.

Specific Operational Risk Management functional responsibilities are defined as follows:

ROLE	RESPONSIBILITIES
Board of Directors	<p>The BOD provides governance, guidance and oversight to Senior Management and sets and approves the risk management policies, strategies and framework. The BOD shall:</p> <ul style="list-style-type: none"> • Review and approve the Operational Risk Management Policy and Framework. • Ensure compliance with all relevant regulatory requirements and periodically report CTBC's operational risk profile and issues. • Ensure that appropriate systems and controls are in place within CTBC in order to identify, assess, manage and monitor the business's Operational Risk exposures. • Ensure that the Operational Risk Management framework is subject to independent

	<p>review by at least through the Internal Audit function.</p> <ul style="list-style-type: none"> Decide and set the operating risk appetite of the business and communicate this throughout the organization. <p>Establish the RMC which shall be responsible for the development and oversight of the Bank's Risk Management Program. It shall provide general direction and define the risk philosophy of the Bank. The core responsibilities of the RMC are as follows:</p> <ol style="list-style-type: none"> Identify and evaluate risk exposures Develop risk management strategies. Implement the risk management plan. Review and revise the plan as needed. Review and update the Risk Management Charter periodically.
Operations Committee	<p>The Operations Committee is a management-level committee duly constituted and authorized by the Bank to fully carry out its functions and responsibilities. The Committee's mission is to monitor and discuss operational risk issues of the Bank. The principal purpose of the Committee is to deal with the risk issues identified by the Business Units and control Functions of the Bank.</p> <p>Functions and Responsibilities of the Committee are as follows:</p> <ul style="list-style-type: none"> To support the BOD and the RMC in their oversight and to assist the President/ Chief Executive Officer (CEO) in his effective management and supervision of the Operations risks taken by the Bank within the established Risk Tolerance and Risk Profile of the Bank. To deliberate on new and outstanding high-risk audit findings of the Bank on operations risk and recommend actions to be approved by the President/CEO. To deliberate on operational risk issues identified by the various Business Units and support Functions through a self-assessment system and recommend actions to be approved by the CEO. To provide inputs and advice to the President/CEO in the conduct of Operations Committee meetings and its deliberations. To periodically review, revise and approve all guidelines, standards and procedures related to its area of responsibility.
Senior Management Team	<p>The Senior Management Team oversees the Operational Risk Management Framework and has day-to-day responsibility and accountability for the management of operational risks in their functions. Specific responsibilities include:</p> <ul style="list-style-type: none"> The development of respective policies and procedures and establishing controls to mitigate identified risks. The regular monitoring of risks against limits. Ensuring processes are in place for dealing with risks that have exceeded acceptable

	<p>parameters.</p> <ul style="list-style-type: none"> • Responsible for identifying, managing operational risk and reporting operational risk events and losses within their respective operational/functional business or operating units. • Reporting Operational Risk incidents and the status of Operational Risk Events to the RMC and the BOD, in accordance with the operational risk reporting limits framework. • Supporting and maintaining the Key Risk Indicator / Risk and Control Self-Assessment framework within their functional/operational unit to continually identify, assess, manage and control operational risks as they emerge and change.
Operational and Reputational Risk Management Officer	<p>The Operational and Reputational Risk Management Officer is responsible for establishing, overseeing and supporting CTBC's Operational Risk Management ("ORM") framework, achieved through:</p> <ul style="list-style-type: none"> • Development of policies and procedures. • Providing guidance, support and advice in the identification, management and control of operational risks. • Providing training of ORM practices and processes, and support the building of an appropriate risk management culture. • Ensure that CTBC meets BSP and Parent Bank's ORM requirements and the timely roll-out of Operational risk initiatives. • Update the management on Operational risk initiatives, results of Business and Functional Units self-assessment exercise, bank overall operational risk profile and risk mitigation strategies. • Validation of ICAAP operational and reputational risk assessment exercise. • Monitoring and reporting of Operational Risk incidents.
Unit Compliance and Risk Officers(UCRO) - Operational Risk Coordinators	<p>Officers from functional/operational units assigned as UCRO-Operational Risk Coordinators are responsible for working collaboratively with the Operational and Reputational Risk Management Officers to ensure operational risks are appropriately and expeditiously identified, assessed, managed and controlled.</p>
Internal Audit Function	<p>The Internal Audit Department is an essential part of the risk management system that takes the lead in the ongoing monitoring of the internal control process and providing an independent assessment of system integrity. The Internal Audit functions have the responsibility to:</p> <ul style="list-style-type: none"> • Review outputs from risk assessments and assess if business units are appropriately following up and addressing those risks identified during the risk assessment process. • Review and assess compliance with local laws and regulations and the internal

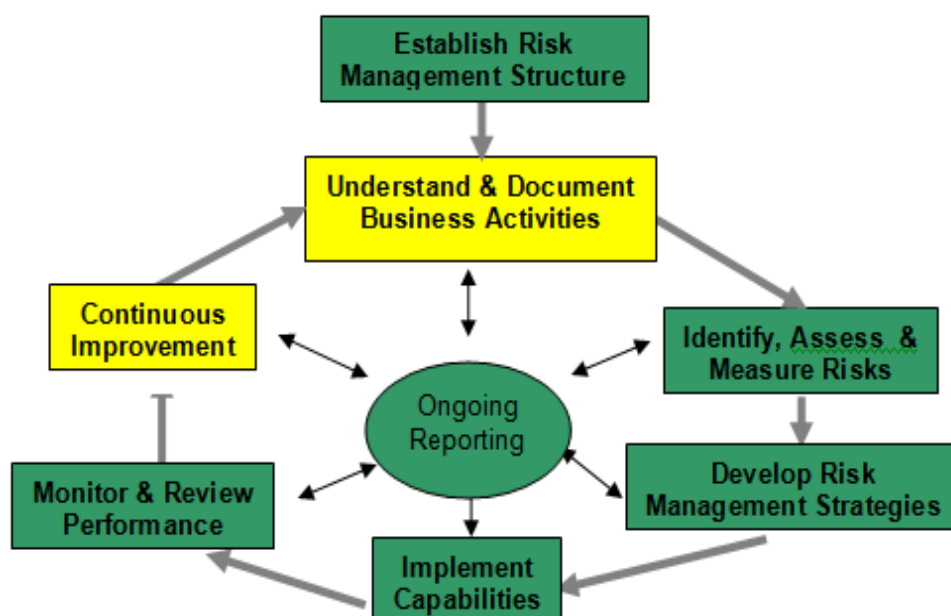
	<p>policies and procedures of CTBC.</p> <ul style="list-style-type: none"> • Provide reasonable assurance to the BOD that management is appropriately managing and controlling all material risks in the business. • Conduct independent examinations and evaluations of risk management processes (policies, procedures, systems) to assess whether operational risks are within acceptable tolerance limits. This includes reviews to assess the appropriateness of the operational risk identification, measurement, response, and monitoring methodology. • Review and assess compliance of Risk-Taking personnel with bank policies and procedures; • Scan for internal control deficiencies or ineffectively controlled risks and report these in a timely manner to the Audit Committee. • Monitor and immediately report to the Audit Committee for identified significant deficiencies that remain uncorrected; • Review and assess that existing policies and procedures remain relevant and adequate for the Bank's activities.
Other Operational Risk related functions	Specialist departments including Legal, Compliance, Human Resources, IT and Finance functions have a dual responsibility to manage both the operational risks within their own functions as well as provide support to other departments for operational risk management e.g. HR should actively participate in the management of risks relating to "people".
All Officers and Staff	All personnel of the Bank are responsible for observing Philippine laws and regulations, CTBC's policies, procedures, delegations and managing risks in line with defined levels.

III. Scope & Nature of Risk Reporting and Measurement Systems

Operational Risk Management Process

To ensure that all operational risk of the different Business and Operating Unit are reported and properly managed, the Bank's promotes the Operational Risk Process Cycle to have a risk process assessment on a periodic basis.

The Bank's Operational Risk Process is illustrated as follows:



The Bank requires all operating units of the Bank on a monthly basis to formulate and use Key Risk Indicator that would represent standard measures in indicating effectiveness of operational risk management activities.

Example of typical risk indicators are:

- Outstanding and Prior Audit Findings not sufficiency addressed
- Frauds and Losses/Attempts
- Control weaknesses
- Reconciling Item
- IT Failure
- People Problem/Turnover
- Others.

Historical losses / risk events are collected to help assess current risk measure being adopted.

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Example of typical risk indicators are:

- Outstanding and Prior Audit Findings not sufficiency addressed
- Frauds and Losses/Attempts
- Control weaknesses
- Reconciling Item
- IT Failure
- People Problem/Turnover
- Others.

Historical losses / risk events are collected to help assess current risk measure being adopted.

Monitoring Tools

- **Key Risk Indicators (KRIs)**

Key Risk Indicators (KRI's) are an important detection (and sometimes preventative) control over risk. Key Risk Indicators comprise three main types: proactive, prospective (leading) and reactive (lagging).

- **Incident Management**

The objectives of incident management processes are the following:

- Assess the impact on appetite / tolerance
- Identify the root cause of the loss
- Identify process improvement opportunities
- Reduce losses
- Business learning

Stress Testing

The Bank utilizes the scenario based survey which is sometimes motivated by recent events which seek to assess the resilience of the Bank and the financial system to an exceptional but plausible scenario.

- **Strategies and Processes for Mitigating Risks**

Business unit risk profiles will be reviewed on at least an annual basis across the entire business. The basis of the review will include reference to:

- Changes in business operations, including new products;

- Emerging or changing risks;

Compliance monitoring activities;

- Risk event reporting, particularly loss data;
- Audit reviews, both internal and external

Senior Management Team members are required to provide an attestation to the Operational Risk Committee following this review. This attestation will verify that the risk profile for their business unit has been properly reviewed and updated accordingly.

Business risk profiles may be reviewed on a more frequent basis for a particular business unit if deemed appropriate due to changes or new developments.

ANNEX 7: OTHER PILLAR II RISKS

A. QUANTITATIVE INFORMATION, as of December 31, 2016

Under the Pillar II, internal capital adequacy assessment of the Bank considers other risks inherent to the Bank like the interest rate risk in the banking books, compliance risk, reputational risk and liquidity risks. The same is disclosed in the Internal Capital Adequacy Assessment Process Document (ICAAP) of the Bank which is updated yearly.

Results of the quantification show the following risk weighted assets (RWA) :

Risk Type	RWA	REMARKS
	(In Millions PHP)	
Liquidity	0	No capital charge is required on account of sound liquidity management and more than sufficient contingency funding.
IRRBB	804	Based on Economic Value of Equity (EVE) Approach
Compliance	791	Based on Compliance Risk Self-Assessment Survey
Reputational	159	Based on Reputation Risk Self-Assessment Survey
Legal	454	Based on Legal Risk Self-Assessment Survey
TOTAL RWA	2,208	

ANNEX 8: LIQUIDITY RISK

I. Strategies & Processes

The Bank's risk appetite and tolerance are set by its set of liquidity risk limits. Liquidity risk limit is a tool for authorizing and controlling specific forms of liquidity risk taken by the Bank to ensure liquidity risk exposure is consistent with the risk appetite of the Bank.

The most often seen limits are:

1. Short-term borrowing: This prevents overdependence on low-cost but unstable funds from other financial institutions. Such limit is established by taking into account external liquidity conditions, our own asset and liability structure, credit facilities granted to us and peer banks' liquidity status.
2. Maximum cumulated outflow (MCO): Limits are set on short-term cash flow gaps in order to prevent overdependence on short-term funds to finance long-term assets, which will heighten liquidity risk. The establishment of MCO limits should factor in gap structure, deposit stability, deposit rollover ratio and the Bank's borrowing flexibility.

When the annual business planning and budgeting discussion kicks off, the review of risk appetite and tolerance should be processed synchronously. Liquidity and Balance Sheet Management Unit will make the limit proposals in accordance with the current year's limit framework. Market Risk Management Department (MRMD) will provide limit recommendations after taking into account risk tolerance, exposure, risk-reward tradeoffs, if necessary, and then consult with the Parent Bank. These limits are updated annually and are subject to the review and approval of the Board of Directors or other delegated authorities.

II. Structure & Organization

The ALCO is a management-level committee established under the Chief

Executive Officer (CEO), which aims to devise the asset-liability strategy of the Bank while evaluating the market situation.

The Liquidity and Balance Sheet Management department effectively manages interest rate and liquidity risks, and acts as the Bank's sole "window" that borrows and lends funds from / to external parties such as interbank counterparties, BSP etc, aside from aligning overall liquidity and interest rate exposures with the Bank's risk appetite based on market conditions and the Bank's balance sheet structure. In addition, the Funding Management Unit shall develop and maintain the operation of the FTP mechanism, make stable profits within approved interest rate limits and shall adjust its positions in accordance with ALCO

decisions.

MRMD is responsible in managing liquidity risk. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

III. Scope & Nature of Risk Reporting and Measurement Systems

There are two types of liquidity risk: funding liquidity risk and market liquidity risk. Funding liquidity risk refers to the risk of inability to obtain funds at a reasonable cost within a reasonable timeframe to meet the financial obligations. Market liquidity risk arises when a specific asset cannot be sold for cash at a reasonable price within a reasonable timeframe. As it may have impact on funding liquidity risk, market liquidity risk must be factored in when assessing funding liquidity risk.

There is cost associated with the level of liquidity. Liquidity risk management aims to satisfy funding needs and maximize profits by allocating assets and liabilities in the most cost effective way within the approved risk tolerance.

All on- and off-balance sheet transactions are with scope of liquidity risk management as they all affect the Bank's liquidity status.

In risk measurement, Liquidity risk is often quantified by a combination of various indicators. The most common indicators include:

- Loan to deposit ratio: This ratio indicates fund shortage or surplus.
- Maturity gap analysis: Analyzing maturity mismatch will help understand cash flow gap by time bucket. Liquidity risk could be measured by this analysis together with an assessment of the Bank's funding capacity.
- Liquidity ratio and composition: This ratio, together with the composition and tenor of liquid assets, may be used to assess the Bank's ability to convert such assets into cash.

MRMD is responsible to continuously develop appropriate liquidity-related indicators and monitoring frequencies based on the characteristics and complexity of assets and liabilities. The overall liquidity risk may not be reflected by single risk indicator. MRMD takes all relevant indicators into account when assessing liquidity risk.

IV. Strategies and Processes for Mitigating Risks

The liquidity risk limits are monitored on monthly basis. MRMD is responsible for independently monitoring the business units' compliance with the established limit framework, as well as disseminating monthly liquidity gap report and advisory summary to ALCO, RMC for senior management's review.

When the liquidity exposure exceeds the established limits, after the excess is confirmed, MRMD shall notify the unit allocated with the limit and the designated limit authority of such limit. Upon receipt of the notification, the unit that is allocated with the limit shall no longer transact to increase exposure. This limit breaching unit must be joined by the MRMD to analyze the causes and impacts of the excess, and draft an action plan addressing the issues. MRMD will submit the analysis and proposal to the limit authority for approval. The business unit involved and Liquidity and Balance Sheet Management Unit will adjust positions in accordance with approved decisions. The excess shall be reported to the senior management or BOD for appropriate remedial actions.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions. In addition to its core deposit base, the Bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the inter-bank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP reserves of its non-FCDU deposits.

Regular stress-testing is also performed. This includes identification of the Bank's assets which can be readily liquidated in case of massive withdrawals and adoption of different deposit run-off rates.

Below is the Bank's Maximum Cumulative Gap in December 2016

Maximum Cumulative Outflow

in USD millions

CCY		Soft limit	Board Limit	ALCO Limit	Dec 16
Liquidity	LCY	7D MCO		(20)	135
		1M MCO		(50)	88
		2M MCO		(30)	71
	FCY	7D MCO		(130)	(25)
		1M MCO		(160)	(39)
		2M MCO		(160)	(55)
	Consolidated	7D MCO	(80)		110
		1M MCO	(95)		50
		2M MCO	(95)		16

ANNEX 9: INTEREST RATE RISK IN THE BANKING BOOK**I. Strategies & Processes**

The Bank's risk appetite and tolerance are set by its set of interest rate risk limits. IRRBB risk limit is a tool for authorizing and controlling specific forms of Interest rate risk taken by the Bank to ensure interest rate risk exposure in banking book is consistent with the risk appetite of the Bank.

For controlling interest rate risk, the Bank sets a limit on the interest rate sensitivity of the banking book. The limit, called delta NII (Net Interest Income) is a control on magnitude of the interest rate risk exposure taken by the Bank. A limit is also set on the sensitivity of the Economic Value of Equity of the Bank to changes in interest rate.

The Liquidity and Balance Sheet Management Unit will make the limit proposals. MRMD will make limit recommendations taking into account risk tolerance, exposure, risk-reward tradeoffs and their proposals. These limits are updated annually and are subject to the review and approval of the Board of Directors or other delegated authorities.

II. Structure & Organization

The ALCO is a management-level committee established under the Chief

Executive Officer (CEO), which aims to devise the asset-liability strategy of the Bank while evaluating the market situation.

The Liquidity and Balance Sheet Management department effectively manages excess liquidity of the bank, and acts as the Bank's sole "window" that borrows and lends funds from / to external parties such as interbank counterparties, BSP etc, aside from aligning overall liquidity and interest rate exposures with the Bank's risk appetite based on market conditions and the Bank's balance sheet structure. In addition, the Funding Management Unit shall develop and maintain the operation of the FTP mechanism.

Market Risk Management Department (MRMD) is responsible in managing interest rate risk in the banking book. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

III. Scope & Nature of Risk Reporting and Measurement Systems

Interest rate risk refers to the impact on the Bank's profits or on economic value of non-trading purpose¹ assets, liabilities and derivatives when interest rates change.

Interest rate risk management aims to keep interest rate exposures within the Bank's risk appetite through the establishment of authorities, responsibilities and management procedures. It provides guide to adjusting asset and liability structures in anticipation of interest rate changes so that the Bank's profit can be maximized.

Interest rate risk stems from different sensitivity of assets and liabilities to interest rate change. The sensitivity of all on- and off-balance sheet items to interest rate movements must be duly examined when assessing interest rate risk.

Interest rate risk may be measured by the following tools:

1. Repricing Gap Report :

This report measures the repricing gap between asset and liability by various time buckets in order to understand interest rate mismatch on a monthly basis.

The assumption on non-maturity deposits are as follows

	PHP	*USD and other FCY
	repricing date	repricing date
Deposits		
Checking	Full Amount, 6M	Not applicable
Demand	Full Amount, 6M	Not applicable
Savings	Full Amount, 6M	Full Amount, 6M

2. Risk Sensitivity:

This measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII (1bpΔNII) focuses on changes in interest income and expense within a year hence, a short-term perspective. The analysis of such impact on EVE (1bpΔEVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on.

¹ Non-trading purpose refers to a position not built for the purpose of earning capital gains

3. Stress Test:

This evaluates the appropriateness of exposure. Stress test methodologies and results shall be submitted to ALCO to comprehend the Bank's rate risk profile.

The above risk measurement may generate different results while adopting different methodologies and assumptions. MRMD is responsible to develop the measurement, monitoring frequency, and parameters by taking into account their respective characteristics/ complexity of assets and liabilities and methodologies used.

The following table provided additional information on the impact on economic value of equity under assumed upward or downward rate shocks scenarios as of Dec 31, 2016.

Repricing Risk - UPWARD

PHP

Rate Change	Δ EVE
in bps	in USD thousands
300	(982)
200	(670)
Base	(4)

FCY

Rate Change	Δ EVE
in bps	in USD thousands
300	(3,283)
200	(2,360)
Base	(14)

Repricing Risk - DOWNWARD

PHP

Rate Change	Δ EVE
in bps	in USD thousands
300	1,130
200	736
Base	(4)

FCY

Rate Change	Δ EVE
in bps	in USD thousands
300	5,282
200	3,239
Base	(14)

IV. Strategies & Processes for Mitigating Risks

The interest rate risk limit shall be reviewed annually in accordance to the annual business strategy and budgeting planning to ensure the effectiveness.

The interest rate risk limits are monitored on monthly or daily basis (AFS and HTM securities). MRMD is responsible for independently monitoring the business units' compliance with the established limit framework, as well as distributing monthly repricing gap report and advisory summary submit to ALCO, RMC and BOD for review periodically.

If the extremely event occurs and risks arise, risk mitigation or remedial measures might be taken. This might include but not limited to

- Take hedging strategies – Mitigate risk exposure by using hedging instrument such as IRS to lessen interest rate exposure in banking book
- Interest rate forecast and balance sheet planning – adjust balance sheet to adjust repricing gap on the basis of forecast of short term and long term interest rate

ANNEX 9

Interest Rate Risk in the Banking Book

Below tables show the sensitivity of the Bank's one-year earnings and economic value of equity to possible changes in interest rates as of end of December 2016.

in PHP		2016									
Currency	Increase in bps	Sensitivity of net interest income			Sensitivity of Equity						
		1M	3M	6M	1Y	2Y	5Y	7Y	10Y Up	Total	
(In Thousand)											
PHP (in 000s)	15	5,183	(816)	(172)	5,623	(2,148)	(4,733)	(362)	-	-	(2,607)
	20	6,910	(1,087)	(229)	7,494	(2,862)	(6,306)	(481)	-	-	(3,472)
	25	8,638	(1,359)	(286)	9,365	(3,576)	(7,877)	(601)	-	-	(4,335)
USD (in 000s)	15	(203)	(197)	(111)	2,687	455	57	(543)	(1,752)	(10,751)	(10,156)
	20	(271)	(262)	(148)	3,581	606	76	(724)	(2,332)	(14,286)	(13,488)
	25	(339)	(328)	(185)	4,475	757	95	(903)	(2,909)	(17,796)	(16,794)
		2016									
Currency	Decrease in bps	Sensitivity of net interest income			Sensitivity of Equity						
		1M	3M	6M	1Y	2Y	5Y	7Y	10Y Up	Total	
(In Thousand)											
PHP (in 000s)	-15	(5,183)	817	172	(5,635)	2,153	4,754	365	-	-	2,626
	-20	(6,910)	1,090	229	(7,516)	2,872	6,343	487	-	-	3,505
	-25	(8,638)	1,363	287	(9,399)	3,592	7,934	609	-	-	4,386
USD (in 000s)	-15	203	197	111	(2,693)	(456)	(57)	547	1,773	10,977	10,400
	-20	271	263	148	(3,592)	(608)	(76)	731	2,369	14,688	13,922
	-25	339	329	185	(4,491)	(760)	(96)	915	2,967	18,424	17,472

ANNEX 10: COMPLIANCE AND BUSINESS RISK

Compliance Risk is the risk of legal or regulatory sanctions, financial loss or loss to reputation a bank may suffer as a result of failure to comply with all applicable Bank laws, regulations and codes of conduct and standards of good practice. Business Risk, as provided in BSP Circular 747 issued in 2012, refers to conditions which may be detrimental to a Bank's business model and its ability to generate returns from operations, which in turn erodes the franchise value.

The Bank's Compliance Department is independent in its function that identifies, assesses, advises, monitors and reports on the Bank's Compliance and Business Risks. It creates a dynamic compliance system and fosters a culture of compliance within the institution. The Bank's Compliance Department oversees the Bank's adherence to the requirements of the regulatory agencies to ensure that the Bank conducts safe and sound banking practices.

I. Strategies & Processes

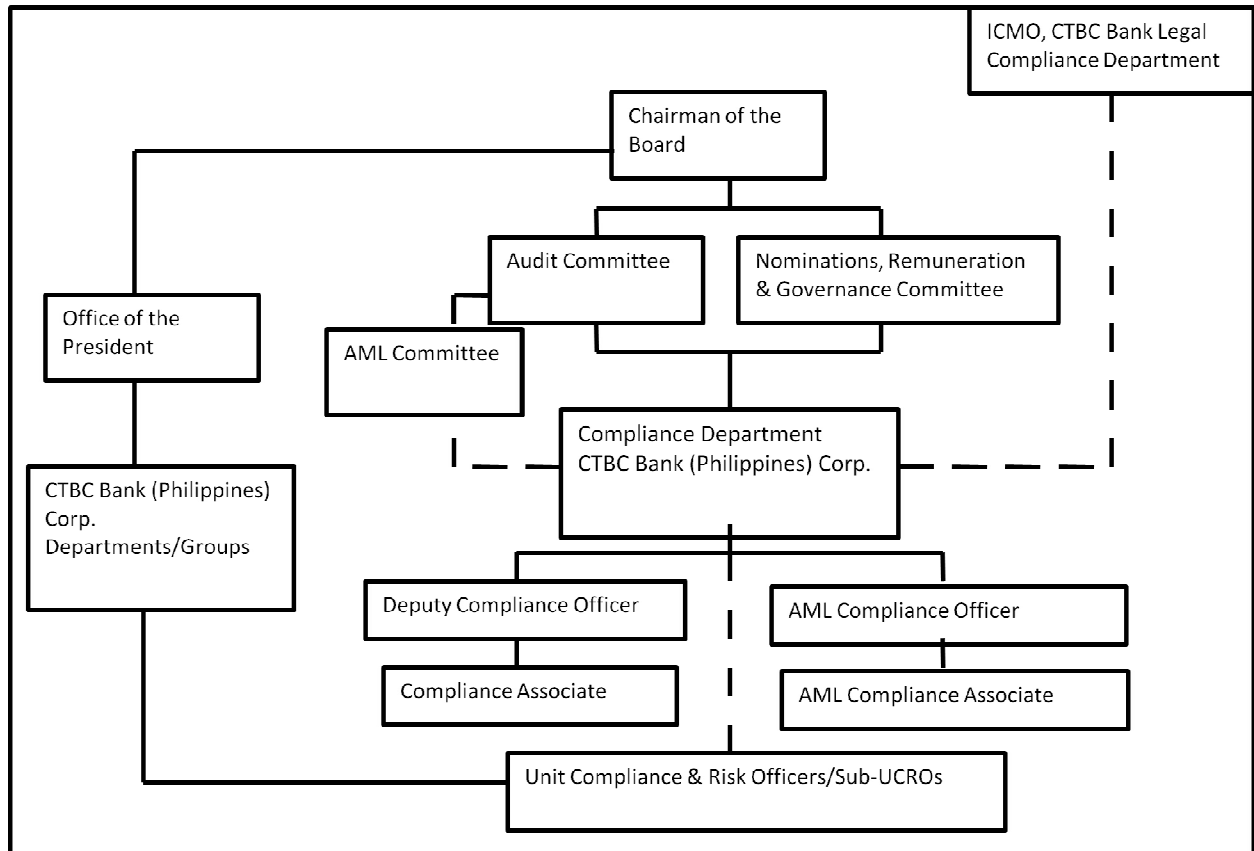
Compliance Department aims to manage Compliance and Business Risks areas through identification of the roles and responsibilities on compliance to regulatory requirements within the line, operating and business units of the Bank and its immediate resolution in cases of possible breaches.

II. Structure & Organization

Compliance Department is composed of two (2) compliance associates and three (3) compliance officers including the Chief Compliance Officer who concurrently the Senior AML Compliance Officer, Associated Person and Responsible Officer. Their functions are embodied in the Bank's Compliance Charter and Compliance Manual.

They are assisted by Unit Compliance & Risk Officers (UCRO) and Sub-UCROs who are designated by their respective group heads and independently function as compliance officers of their groups and report to the Compliance Department.

Below is the Compliance Department Organizational Chart :



III. Scope & Nature of Risk Reporting and Measurement Systems

Compliance Department is an independent unit, reporting directly to the Audit Committee and BOD and administratively is under the Office of the President. Departmental and Independent Compliance Testing are established to have a risk based, quantitative and qualitative review of the regulatory requirements.

IV. Strategies and Processes for Mitigating Risks

The Compliance Program of the Bank provides for the clear and documented guideline that defined the Compliance structure, its functions, roles and responsibilities. In ensuring that these risks are monitored and mitigated, a comprehensive compliance system has been established to ensure that integrity and adherence in the regulatory requirements as well as in the accuracy and timeliness of reporting requirements of the Bank. The Bank's Compliance program likewise defined constructive working

relationship between the Bank and the regulators by having an open and clear communication line as well as appropriate monitoring and tracking until resolution of possible noted breaches ensuring safe and sound banking operations is upheld within the institution.

ANNEX 11: REPUTATION RISK

I. Strategies & Processes

Reputational Risk is the risk or its likelihood that negative information, public opinion or publicity, regarding an institution and its business practices will lead to loss or reduction of revenue and /or decline in its customer base, and/or costly litigation

At CTBC Bank (Philippines) Corp. (CTBC), reputational risk is among the identified risks, which the Bank may be exposed to. Possible public embarrassment, erosion of trust from the customers, adverse impact on the revenue, are among the potent results of this risk, largely impacting on the name of the organization and the confidence of the customers to continue doing business with the Bank.

Based on the results of the internal Risk Self Assessment conducted at CTBC, reputational risk is among the “soft” risks, ranking lower in the list of risk categories. Historically, CTBC, now operating on its 19th year as of this writing, has not had any reputational issues. However, CTBC’s Bank Management and its personnel continue to be vigilant of any untoward possibility brought about by reputational risk, through a well-established preventive posture.

Reputational Risk Identification

Critical to the effective reputation risk identification process was the active involvement of designated officers representing the various business, operational and other support department/groups of the Bank. Major classification of the reputational risk assessment process includes the following:

<i>Reputational Risk Classification</i>	<i>Risk Description</i>
Strategic Planning and Business Development	Reputational risk issues related to setting and fulfilling the goals and targets, business performance and profitability, market standing, and business outlook.
Systems, Controls and Infrastructure	Reputational risk issues related to information, data, security management, operations and processing, supporting systems and infrastructure, risk management process and controls, financial and budgetary controls, business continuity, and crisis management.

Human Resource	Reputational risk issues related to recruitment, retention, and succession planning, remuneration and incentive schemes, competence and training, motivation, conduct and integrity, morale, staffing and workload, health and safety, and others.
Operating Environment	Reputational risk issues that arose from market, political, social and technological developments.
Stakeholder Relations and Communications	Reputational risk issues related to stakeholder loyalty and confidence, satisfaction of their needs and expectations, and effective communications with them.
Legal and Regulatory Compliance	Reputational risk issues related to compliance with relevant laws, regulations and codes of conduct.
Corporate Governance	Reputational risk issues related to governance infrastructure and practices, and compliance with internal policies, codes of conduct, guidelines and procedures.
Contagion Risk or Rumors	Reputational risk issues related to reputation events affecting the Parent Bank, non-bank holding company, or other members of the group (e.g. sister companies, subsidiaries and affiliates).

Specific areas were assigned to the officer designates who were involved in the reputational risk self assessment survey. These officers were designated by the Group Heads to represent the group and were instrumental in determining the key sources of reputation risk events and losses in their respective assigned area. Part of the exercise was to assess the likelihood and impact of each reputational risk event, the maximum loss to be incurred if it happens, the necessary controls to be implemented to manage the reputational risk exposure, both preventive and reactive mitigating factors to the risk events. More importantly, the controls put in place were also checked as to its effectiveness, including the close monitoring of the execution of the controls by the identified risk owners, to preclude same risk event to happen again in the organization at a future time.

Stress Testing

In the calculation of reputational risk under the stressed scenario, the Bank utilizes the Reputational Risk Self Assessment (RRSA) Survey. The scenarios provided by the Business and Functional Units are already stressed based on their perceived risks and existing controls.

II. Structure & Organization

CTBC has established a framework of roles and responsibilities consistent with the generally recognized principles of sound Reputational Risk Management practice. Ultimate responsibility for the appropriate management of Reputational Risk rests with the BOD of CTBC.

Specific Reputational Risk Management functional responsibilities are defined as follows:

ROLE	RESPONSIBILITIES
Board of Directors (BOD)	<p>The BOD provides governance, guidance and oversight to Senior Management and sets and approves the risk management policies, strategies and framework. The BOD shall:</p> <ul style="list-style-type: none"> • Review and approve the Reputational Risk Management Policy and Framework. • Ensure compliance with all relevant regulatory requirements and periodically evaluate CTBC BANK s reputational risk profile and issues. • Ensure that appropriate systems and controls are in place within CTBC BANK in order to identify, assess, manage and monitor the business s Reputational Risk exposures. • Ensure that the Reputational Risk Management framework is subject to independent review by at least through the Internal Audit function.
Risk Management Committee (RMC)	<p>The BOD-established RMC shall be responsible for the development and oversight of the Bank's Risk Management Program. It shall provide general direction and define the risk philosophy of the Bank. The core responsibilities of the RMC are as follows:</p> <ul style="list-style-type: none"> • Identify and evaluate risk exposures • Develop risk management strategies. • Implement the risk management plan. • Review and revise the plan as needed. • Review and update the Risk Management Charter periodically.
Quick Assessment Team (QAT)	<p>The QAT is a Reputational Risk Team chaired by the CEO, which is established to manage reputational risk events. The CEO has the option of mobilizing the QAT as he deems necessary. Responsibilities of the QAT are the following:</p>

	<ul style="list-style-type: none"> • The QAT is empowered to deploy Spot Evaluators to further assess the extent of the reputation event • Based on feedback of the assigned Spot Evaluators, the QAT will make a report on the magnitude and impact of the event and give its recommendation/s to the CEO • Constant monitoring and feedback will be done by the Spot Evaluators and the QAT until the CEO decides that the threat is over.
President/Chief Executive Officer (CEO)	<p>The CEO can help promote effective external communications, especially in the handling of reputation events, and ensure that the reputation perspective is adequately considered in the Bank's risk management processes.</p> <p>The CEO shall be the Bank's primary spokesperson to the members of the media with close coordination with Marketing Communications and Services Department (MCSD) and will be responsible for keeping the Parent Bank's Public Relations Unit informed from time to time.</p> <p>Should the CEO not be available, CTBC BANK will follow the approved spokespersons list and the Bank's Policy Manual for External Communication for Media.</p>
Chief Risk Officer (CRO)	<p>The CRO holds the oversight function of the ORRMD. The CRO shall manage ORRMD and ensure that responsibilities related to the management of Reputational Risk are met. In the absence of the ORRMD Head, the CRO shall perform the functions assigned to the ORRMD Head in this policy.</p>
Senior Management Team	<p>The Senior Management Team oversees the Reputational Risk Management Framework and has day-to-day responsibility and accountability for the management of reputational risks in their functions. Specific responsibilities include:</p> <ul style="list-style-type: none"> • The development of respective policies and procedures and establishing controls to mitigate identified risks. • The regular monitoring of risks against limits. • Ensuring processes are in place for dealing with risks that have exceeded acceptable parameters. • Responsible for identifying, managing and reporting reputational risk events and losses within their respective units. • Reporting Reputational Risk incidents and the status of Reputational Risk Events to the RMC and the BOD, in accordance with the reputational risk reporting limits framework. • Supporting and maintaining the Risk and Control Self-Assessment framework within their unit to continually identify, assess, manage and control reputational risks as they emerge and change. <p>Senior management plays a crucial role in setting the right tone from the top so that</p>

Department Heads	<p>appropriate emphasis can be given to managing material risks, including reputation risk and implements the bank's risk management policies and ensures that relevant control systems work as intended.</p> <p>Other levels of Management (including Department Heads)</p> <p>The duties of other levels of Management are:</p> <ul style="list-style-type: none"> • Promoting staff awareness of reputational risk in their respective business, operation or function (in particular those that interact directly with major stakeholder groups); • Identifying key risks (for example, strategic and operational risks) that can significantly affect the Bank's reputation or business and bring them to senior management's attention; • Being alert to early warning indicators of potential problems or threats to reputation; and <p>Ensuring that reputational risk is properly managed, with no major risks affecting reputation being inadvertently excluded (for dedicated risk management personnel).</p>
Marketing Communications and Services Department (MCSD) Head or its designated deputy.	<p>The MCSD Head/Deputy is responsible for overseeing and supporting CTBC BANK's Reputational Risk Management ("RRM") framework, achieved through:</p> <ul style="list-style-type: none"> • Providing guidance, support and advice in the management of communication messages to external parties with special focus on the members of the media. • Support the building of an appropriate risk management culture. • Planning the overall structure and method of reputational risk management. • Works with ORRM Head/Deputy in formulating the ICAAP Reputational Risk Self-Assessment; • Reports to the CEO for possible and actual reputational risk events for prompt action/handling; • Handles external communications to media and together with Compliance and Legal guides other units (i.e. Customer Care, Business Units, Branches, etc.) in their communication messages to their intended publics. • Monitors local media reports for possible reputational risk events and is responsible for the compilation and filing of media releases for all reputation events. • Coordinates the Media Training of the Bank's Official Spokespersons. <p>The ORRM Head/Deputy shall at all times act in consultation with the CEO, MCSD</p>

Operational and Reputational Risk Management (ORRMD) Head/its designated deputy	<p>Head/Deputy and the Reputational Risk Management Team (refer to Section 10.2) and shall be assigned, among other things, the following duties:</p> <ul style="list-style-type: none"> • Development of policies and procedures; • Ensure that CTBC BANK meets BSP Basel II and Parent Bank's RRM requirements and the timely roll-out of reputational risk initiatives; • Stipulating an identification and assessment method of reputational risk; • Standardizing the warning indicators of reputational risk early warning systems; • Liaise with QAT, OTP, MCSD, Legal, Compliance, Senior Management in managing a reputational event; and • Management of reputational risk including monitoring and reporting to the Management.
Unit Compliance and Risk Coordinators (UCRO)	<p>Officers from business /operational units assigned as UCROs are responsible for working collaboratively with the Operational and Reputational Risk Management Head and MCSD Head to ensure reputational risks are appropriately and expeditiously identified, assessed, managed and controlled.</p>
Internal Audit Function	<p>The Internal Audit Department (IAD) is an essential part of the risk management system that takes the lead in the ongoing monitoring of the internal control process and providing an independent assessment of system integrity. The Internal Audit functions have the responsibility to:</p> <ul style="list-style-type: none"> • Review outputs from risk assessments and assess if business units are appropriately following up and addressing those risks identified during the risk assessment process. • Review and assess compliance with local laws and regulations and the internal policies and procedures of CTBC BANK. • Provide assurance to the BOD that management is appropriately managing and controlling all material risks in the business. • Conduct independent examinations and evaluations of risk management processes (policies, procedures, systems) to assess whether reputational risks are within acceptable tolerance limits. This includes reviews to assess the appropriateness of the reputational risk identification, measurement, response, and monitoring methodology. • Scan for internal control deficiencies or ineffectively controlled risks and report these in a timely manner to the Audit Committee. • Monitor and immediately report to the Audit Committee for identified deficiencies that remain uncorrected; • Review and assess that existing policies and procedures remain relevant and adequate for the Bank's activities.
Other Reputational	<p>Specialist departments including Legal, Compliance, Human Resources, IT and Finance functions have a dual responsibility to manage both the reputational risks within their own</p>

Risk related functions	functions as well as provide support to other departments for reputational risk management e.g. HR shall actively participate in the management of risks relating to "people".
All Officers and Staff	<p>All personnel of the Bank are responsible for observing Philippine laws and regulations, CTBC BANK's policies, procedures, delegations and managing risks in line with defined levels.</p> <p>All other staff can help to uphold CTBC BANK's reputation through their behavior, remarks and actions which may influence stakeholders' perception of the Bank.</p>

III. Scope & Nature of Risk Reporting and Measurement Systems

Monitoring and Reporting

In order to monitor and control reputational risk, early warning indicators of any changes to reputational risk shall be analyzed and evaluated for improvement, and reported to the CEO if necessary.

Early Warning Indicators

The ORRMD with the assistance of other functional and business units (i.e Treasury Group (TRY), Finance & Corporate Affairs Group (FCAG) , BCM etc.) shall regularly monitor scenarios that may impact on reputational events through market environment reports, social and political trends, and asset development reports, among others. MCSD will likewise monitor local media reports for possible reputational events. Such obtained information shall be forwarded by business units and MCSD to the ORRMD to be reported to the CEO immediately.

Communications and Disclosures

With regard to the reputation events, personnel, financial or business related information, the Bank shall communicate regularly with the outsiders in a clear, honest, transparent and timely manner by way of a disclosure, announcement or press release/statement. This will help in preventing a communication vacuum and in alleviating or minimizing any damage to the Bank's reputation.

Reputational Risk Assessment and Quantification

Working towards an effective quantification process, the team made use of the template of the reputational risk self assessment survey as part of CTBC's risk assessment process. Plausible as well as stressed situations were worked on, in the identification of the reputational risks. After identifying the major reputational risk events per risk classification, the assigned officers proceeded to determining the maximum loss.

IV. Strategies and Processes for Mitigating Risks

For an effective reputational risk monitoring and management infrastructure, CTBC strongly supports the compilation of reputational events, including the corrective action from the various business, operational and support groups. This is an integral component of the management and monitoring of the implementation of the corrective action and continuous preventive position of the Bank. This forms part of the functional coverage of the ORRMD of the Bank.

Reputational Risk Reporting and Review of Strategies

To preclude damage to the Bank's name or to institute damage control for harm already done, action plans and strategies have to be continually revisited. This will ensure appropriateness of the action and strategies to the situation at hand.

ANNEX 12: STRATEGIC RISK

Strategic risk is the risk that the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This definition gives importance to business planning, where business decisions and its implementation are derived from.

The strategic risk of the Bank is a function of the compatibility of its strategic goals, the quality of carrying out its implementation, building the infrastructure to meet such goals.

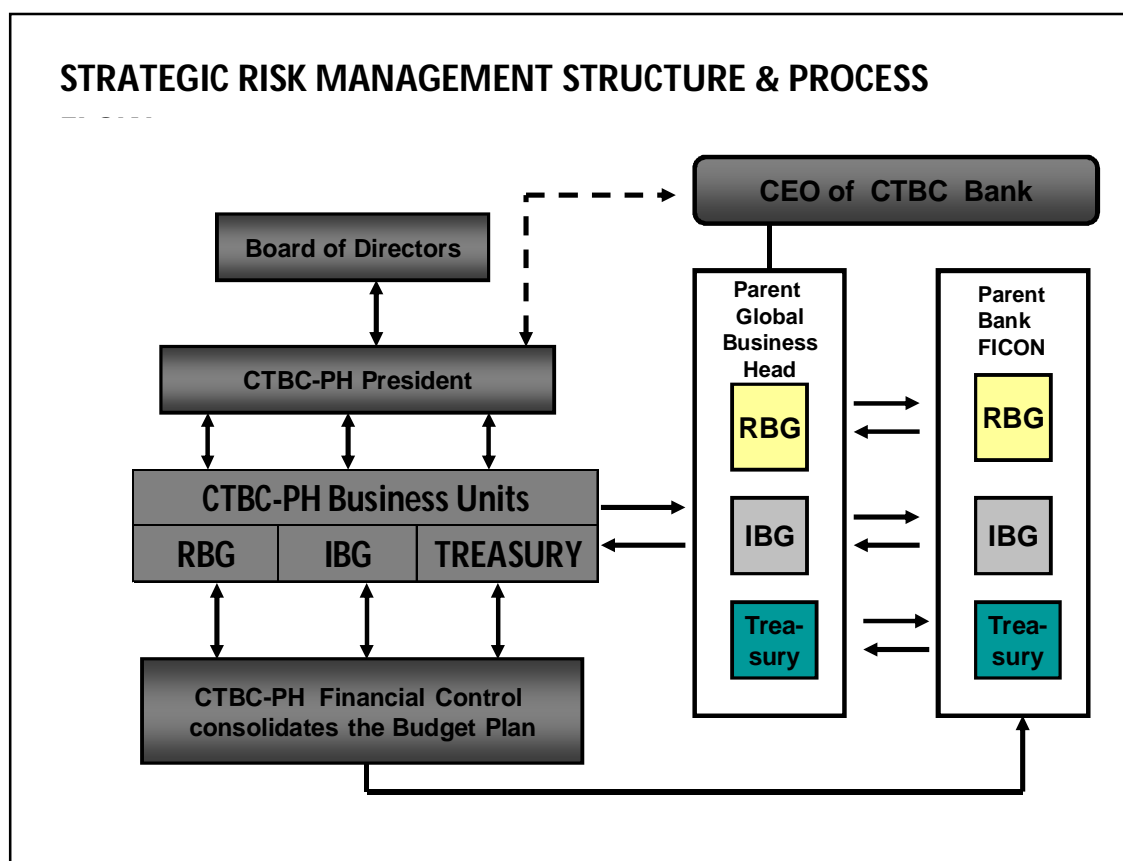
I. Strategies & Processes

Strategic risk management begins with the business planning. Business plans of the Bank establishes the strategies and priorities of the Bank. CTBC in preparing and drawing up its business plans considers prevailing macro-economic environment indicators, lists down external opportunities and threats for each business segment, re-evaluate its internal strengths and weaknesses, analyze the competition against other local and foreign banks and thereafter issues out the overall country strategy.

The overall country strategy is drilled down to the business segments, e.g. Institutional Banking Group, Treasury Group, Retail Banking Group. Annually, these business segments draw up a business plan that is endorsed for approval by the Global Business Heads.

After the formulation of the business plan, the Bank will then subject the budget plan to stress testing by scenario planning. Scenario planning is an advance stress testing that derives alternative future plausible and extreme scenarios from the Bank's Strengths/Weaknesses/Opportunities/Strengths analysis, business plans, possible deviations from its projected financial performance and probable effects on its capital. Scenario planning allows the Bank to make strategic adjustments for the future, if needed. The Bank determines the scenarios that could adversely affect earnings and these are identified through scenario planning. These scenarios are linked to the changes in net income through variance analysis between the budget vs actual income statement and balance sheet volumes of interest earning assets and interest bearing liabilities.

II. Structure & Organization



The strategic risk management function is being handled by the Finance Group (Capital Management Unit and Financial Control Department/ FICON) of the Bank with support from the business units and other functional departments such as Human Resources (HR), and Information Technology (IT) departments.

FICON performs the regular financial reporting and discussions with relevant business units, the CEO and the BOD. They handle the consolidation of the Bank's budget plan from the different business segments which are reported to both the local and global management.

Capital Management Unit subjects this budget plan to a stress testing and allocates a capital charge for strategic risk in the quantification of the budget capital adequacy ratio.

Business Units re-evaluates its internal strengths and weaknesses and analyze the competition in the industry and thereafter crafts out the business strategy and plans.

Business Units & the Finance Group have a matrix reporting to their global counterpart in the Parent Bank, where the global counterpart ensures business strategies and plans of

the Bank is aligned with the business objectives of the Parent Bank subject to the approval of the CEO of CTBC Bank.

III. Scope & Nature of Risk Reporting and Measurement Systems

As part of setting the strategic goals of the Bank, capital planning and funding needs will be a major part of the supporting processes in drawing up the strategic plans for the next five years. Management information system (MIS) reports such as product profitability reports, customer specific marketing plans whether for a new customer or expanding existing business relationships based on customer profitability analysis will be in place thru information extracted from data warehouse systems. Finally, independent reviews and audits will be conducted at least annually by internal or external audit to ensure effectiveness and integrity of the strategic risk management framework of the Bank.

With the close and meticulous supervision/monitoring of Parent Bank on the progress of meeting the Bank's strategic goals, append below is the frequency of meetings & reporting, the nature of the reports, the reviewing authority and the evaluation and feedback process that has been put into place :

Quarterly business meetings and performance review (thru telecon) – Local Institutional Banking (IBG) Head with Global IBG Head, local Treasury Head with Global Treasury Head in Parent Bank; Reports presented shows financial results and management overview customer metrics information, market sentiment and competitors' new products . In addition, actual month-to-date (MTD) results are compared to the preceding two months, actual year-to-date (YTD) results compared to the YTD results for the same period last year. Likewise, YTD actual are compared against full year budget. Year on year growth and Budget achievement are also presented.

Local Board meeting is held every two (2) months, and the latest financial results are shown. In the Board meeting, the action plans of each business group to meet the budget or catch up (in case actual results are falling behind budget) with the budget are likewise presented and scrutinized by the Board Director members.

IV. Strategies and Processes for Mitigating Risks

When strategic adjustments need to be done, proper alignment of internal resources and processes will be made as well to ensure that all change issues and interdependencies between processes across departments be managed to accomplish these adjustments. HR will provide the training and development programs, while management succession plan will be part of the supporting processes in the achievement of the Bank's strategic goals.

Likewise, IT will develop new application systems to support new products and other new business initiatives. It will also have to enhance/customize existing systems to eliminate manual processing and thereby improve operational efficiency.

Success or failure of strategy depends on the Bank's resources, capability to implement the strategic goals and the ability to effectively monitor and control the progress of implementation. With the set-up of reporting structure, strategic issues are promptly identified and reported to the local CEO and then to the matrix reporting authority at Parent Bank.

ANNEX 13: Legal Risk

Legal risks belong to non-quantifiable risks that are not subject to specific numerical measurements but likewise require similar management attention. While unpredictable, non-quantifiable risks may cause severe impact on the Bank's statements of income. These risks are mitigated by developing a strong control culture, an organizational structure that is risk-aware, and an effective internal control system that continually monitors and updates processes and procedures.

Legal risks include the potential for the Bank to suffer a financial loss due to non-existent, incomplete, incorrect and/or unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. This risk is closely related to credit risk as it most often involves legal problems with counterparties to the Bank's transactions. It is also closely related to other non-quantifiable risks that have to be assessed: fiduciary, reputational risk and regulatory risk.

A legal review process is the primary control mechanism for legal risks and shall be part of every product program or process of the Bank. The review aims to validate the existence, propriety and enforceability of documents, and verify the capacity and authority of counterparties and customers to enter into transactions. The Bank's Legal Department is the primary unit assigned to identify, assess, manage and monitor the Bank's legal risk.

I. Strategies and Processes

The Bank's legal risk management framework seeks to ensure that there is an effective process in place to manage legal risk across the Bank. Legal risk management is integral to all aspects of Bank's transactions and activities that is why it is a shared responsibility not only by the Board of Directors, Committee members, but also by the functional units and of every bank officer through the observance of appropriate controls and monitoring. The Board of Directors and the President have the prime responsibility to establish a risk culture and risk management organization that incorporates risk processes as an essential part of the Bank's and the Trust and Investment Services Division's (TISD) strategic plans.

The Board-constituted Committees which are the (i) Executive Committee, (ii) Nomination and Remuneration and Governance Committee, (iii) Audit and Compliance Committee, (iv) Risk Management Committee and (v) Trust Committee, assume risk management responsibilities stated in the institution's By-Laws, delegated by the Board and those required by the law and regulatory bodies. The Bank's senior management committees which are the Management Committee, Credit Committee, Asset and Liability Committee, Human Resource Committee, and Information Technology Steering Committee, are responsible for the creation and oversight of the Bank's risk policies. These committees are actively involved in planning, approving, reviewing and assessing all risks involved.

II. Structure and organization of the Legal Department

The Legal Department which plays a very crucial support role in the bank's business is headed by a Legal Department Head, complemented by a Litigation Unit Head, a Documentation Officer, a paralegal and a department secretary. From time to time and as the need arises, the Legal Department engages a lawyer coming from the pool of its accredited external counsels to help and assist in the fulfilment of its documentation function. While Legal Department is part of the Finance and Corporate Affairs Group (FCAG), it was made clear to all units that Legal has open reporting channels to the Office of the President and remains independent. FCAG only exercises administrative control over Legal Department; e.g. approval of leaves, requisition of supplies, which are all governed by existing policies.

Too, aside from documentation, litigation of cases for or against the Bank, rendering opinions and oversight function on matters referred to the Bank's external counsel, the Legal Department performs corporate secretarial work and renders legal services to functional units.

III. Scope and Nature of Risk Reporting and Measurement System

The main objective of the department is to see to it that the institution observes the applicable laws, rules and regulations such that no violations thereof will unduly impede or interfere with its banking operations. The Legal Department also sees to it that all agreements of the Bank with its customers and other third parties afford the fullest legal protection to the Bank, and set forth in clear, unambiguous language, not susceptible to conflicts in interpretation, the obligation of the parties. In this manner, in the event of a claim, action or suit, brought by or against the Bank, the risk of loss resulting from a decision or judgment adverse to the Bank will be minimized. The Head of the Legal Department also acts as an adviser to the top management and the Board of Directors. To ensure that the Bank receive optimum legal advice, the Head of the Legal Department must not be restricted in expressing independent legal judgment on any matter referred for consultation.

In compliance with BSP recommendations, Legal Department through its Litigation Unit, prepares a Legal Risk Report for ICAAP wherein risk exposure of the Bank on claims or cases is identified, monitored and assessed. Cases included in the report are those suits instituted against the Bank as these legal actions were primarily lodged to exact payment for damages or supposed causes of action, including bank initiated criminal cases against erring employees since the Bank still spends for the professional fees of its chosen handling external counsels.

To determine the risk exposure of the Bank on litigated claims or cases, Legal Department uses the formula wherein the principal amount involve in every case or claim is multiplied by the percentage of the probable result or probability of losing. Probable result, meantime, is based on the most intelligible assessment of the handling lawyer of the case under consideration after taking into account different factors that affect the outcome of the case or litigation.

Apart from the Legal Risk Report for ICAAP, the Legal Department prepares and submits a monthly litigation report which it provides to the functional units, to Compliance Department and to Operational and Reputational Risk Management Department. Monthly, the Legal Department also submits to its counterpart in Head Office Taipei a Monthly Report - Litigation. Likewise, every other month the Legal Department submits its Items in Litigation ("ITL") report to the Board of Directors while its risk report on cases filed against the bank is submitted to the Risk Committee. On a quarterly basis, the Legal Department also submits Potential Litigation Report and, on annual basis, the Labor Disputes, Criminal Cases & Significant Litigation Report to HO.

IV. Strategies and Processes for Mitigating Risks

To mitigate risks, product manual and guidelines are reviewed by Legal Department. Such review form part of the bank's internal processes before such manuals or guidelines are finally approved. Contracts or agreements for service providers or other third parties are similarly endorsed by the functional units for review by the Legal Department to check whether the bank's rights and interests are protected, as well as to ensure that mandated provisions or requirements by the regulatory bodies or agencies are included.

Functional units also seek the necessary legal opinion from the Department to cover legal risks of bank transactions being handled by the unit. While the functional units, upon proper approval, may engage external counsel, the Department sees to it that the external counsel is fully apprised of the transaction and the needs of the referring functional unit are fully addressed by the legal opinion/services sought.

The Legal Department also exercises oversight function over the handling of bank cases by accredited external counsels. To ensure that these external counsels will provide and exert their utmost skills in litigation, the Department conducts an annual performance review and communicates to concerned external counsel the need to improve, if any. Surprise attendance in hearings of the external counsels is conducted by Legal Department's Litigation Unit to gain accurate insight on how the bank cases are being handled by the external counsel. Other strategies which the Legal Department applies are set out in its Legal Risk Manual.

ANNEX 14: INCENTIVE STRUCTURE & REMUNERATION POLICIES

The Bank's remuneration philosophy is to ensure that its employees are properly compensated through a salary, benefits and incentives program that is competitive in the industry. It provides salaries that are fair and commensurate to the position and functional responsibility of its employees. Salaries and benefits are reviewed annually vis-à-vis other banks, so that retention of talents is strengthened. Merit increases and promotional increases are provided to performers, in line with the Bank's performance-oriented culture. Moreover, the Bank complies with all statutory requirements of the Labor Code of the Philippines (e.g. minimum wage, leaves, 13th month pay, government contributions, etc.), and in most cases, provides more than what the law requires.

Over and above compensation and benefits, the Bank offers profit sharing bonuses to deserving employees who perform at par with Management's expectations. Incentives are also given to those with sales and revenue-generating functions, to provide additional motivation for them to surpass their business goals.

Annex 15: Related Party Transactions

The Bank has a formal policy on Related Party Transactions. The RPT Policy is regularly updated and approved by the Board. It provides reference in handling transactions of related parties taking into account the standards in observing arms length, dealings and subjecting transactions to effective system of checks and balances, approval, reporting and disclosure process. Said policy has been updated recently to comply with the requirements of the new BSP Circular 895 on Related Party Transactions issued on 14 December 2015 and board approved last June 2016 Board meeting.

The Bank in ensuring good corporate governance and employing safe and sound banking practice, established structures, limits and materiality thresholds on transactions to a Related Party, embodied in the policy to prevent potential abuses, avoid conflict of interest and protect the interest of the stakeholders.

The Bank has an established system of record of the names of Bank's DOSRI (Directors, Officers, Stockholders and Related Interests) and Related Parties. This also includes the Bank's parent bank's list or names of its Related Parties. A culture of compliance structure is established in evaluating related party transactions. In case of personal interest in the transaction, said directors or officers shall abstain from the discussion, approval and management of the said transaction or matters.

The Bank is not part of a local conglomerate or directed by BSP to require the creation of Related Party Transaction Committee. It still has established a clear delegation of roles and responsibilities of the Board of Directors and Senior Management.

On nature, terms and conditions, original and outstanding individual / aggregate balances, including off balance sheet commitments, the Bank's RPT Policy shall be used as reference by the business units in establishing their respective Materiality Thresholds and Excluded Transactions, Internal Limits for Internal and Aggregate Exposures in coordination with concerned departments. Other important requirements include the Whistle Blowing Mechanism, Restitution of losses and other remedies for abusive RPTs and reportorial requirements and disclosure are likewise given emphasis.

ANNEX 16: 2016 AUDIT COMMITTEE ACCOMPLISHMENT REPORT

1. Conducted six committee meetings in 2016 and covered the periodic Internal Audit, Compliance, external audit and regulatory reports as follows:
 - March 1, 2016
 - May 4, 2016
 - June 21, 2016
 - August 10, 2016
 - October 18, 2016
 - November 24, 2016
2. Reviewed the bank's performance evaluation results on RG Manabat & Co. relative to their examination of the bank's 2015 financial statements.
3. Selected and appointed RG Manabat & Co. as the Bank's 2016 external auditor, including review and approval of the audit engagement contract, and oversee the audit engagement and deliverables relative to their examination of the Bank's audited financial statements as of December 31, 2016.
4. Reviewed the Bank's 2015 audited financial statements as certified by RG Manabat & Co. including the financial highlights, summary of adjustments, audit and accounting issues and its resolutions and preliminary list of management letter comments. Endorsed the 2015 audited financial statements to the Board for approval of the shareholders and reviewed the bank's management representation letter issued to the external auditor.
5. Reviewed the audit plan of RG Manabat & Co. relative to their examination of the Bank's 2016 financial statements including the new accounting standards on financial instruments and leases, regulatory updates, key macro economic statistics and banking industry trends and directions.
6. Closely monitored the status of all Audit Committee directives to bank management including improving risk and control awareness of bank personnel and credit evaluation and review for the bank's consumer loans business.
7. Reviewed all reports issued by Internal Audit, Parent Bank auditors, Compliance and regulators.

8. Closely supervised the Bank's internal audit and compliance functions including review of the annual plans, MBO and effectiveness of both functions, which contributed to Internal Audit's 2016 rating of "Satisfactory" (the 1st tier in the new 4-tier rating system) from the Parent Bank which is the best again among the Parent Bank's five overseas subsidiaries.
9. Significant findings and issues noted by Internal Audit (e.g. system access rights, network and security controls, system development testing and documentations, change management process, software license monitoring, inventory of bank IT assets, adherence to requirements and covenants prescribed in the approved Credit Application Form for corporate loan accounts and bank prescribed credit policies and procedures on mortgage and SME loans, credit evaluation and review of consumer loans business, management of foreclosed assets, AML and KYC, independent compliance testing, unauthorized fund transfers, accreditation process and performance evaluation of agencies/vendors, and system errors on employee leave credits) and BSP were elevated to the Board of Directors or endorsed to management for resolution of these issues.
10. Reviewed and provided recommendations to improve the operational, credit, regulatory and IT risk management and internal control systems of certain units and branches of the bank, provide relevant trainings to bank personnel, and improve the discipline and work culture in the organization as it noted that the bank's revenue growth is not commensurate to the increase in headcount and recruitment of several high ranking officers in certain group.
11. Monitored and tracked status of outstanding BSP findings as reported by Compliance Unit including the bank's remedial plan for BSP's findings on AML matters.
12. Regularly reviewed the updates on AML statistics on alerts, covered (CTR) and suspicious transactions (STR) and latest AML rules and updates.
13. Reviewed and endorsed/approved the following updated charter, manuals and policies:
 - Internal Audit Manual
 - Compliance Testing and Risk Assessment Manual
 - Compliance Manual
 - Compliance Testing & Risk Assessment Manual
 - Unit Compliance & Risk Officers and Sub-UCRO Guideline
 - Updated Travel to Taiwan Guideline
 - Related Party Transaction Policy
 - Money Laundering & Terrorist Financing Prevention Program

- Crimes and Losses Policy Manual
- CIF Review Committee Charter

14. Reviewed and provided inputs on Internal Audit's risk assessment methodology and overview of its preliminary bankwide risk assessment evaluation which were included in the preparation of the 2016 audit plan.
15. Reviewed the Compliance and AML Training Plans and Independent Compliance Testing Plan for 2016.
16. Closely monitored the status of the bank's capital build up plan and FATCA and AML related projects.
17. Directed management to present and report to the Committee audit items that will have second target date extension including the justification or rationale for the extension.
18. Non-executive members of the Committee regularly met separately with the Internal Audit Head and Compliance Officer during the year.
19. Attendance record of Committee members for 2016.

Committee Members	No. of Meetings Held	No. of Meetings Attended
Edwin Villanueva	6	5
Ng Meng Tam	6	6
Frank Shih	6	6