

**CTBC BANK (PHILIPPINES)
CORPORATION**

Annual Report Year 2017



Our Purpose

To achieve sustainable growth and to be a trustworthy brand that provides a uniquely personal and fulfilling customer experience through differentiated products and services within our global network.

Our Strategy

We will provide a stable source of revenue for the Bank by being the preferred financial products provider for our customers and by optimizing the earning potential of our resources.

We will innovate products and services that will delight our customers and address their needs.

We will promote a culture of entrepreneurship where our employees become partners in pursuing sustainable business growth.

We will remain committed to uplifting the lives of the people in our communities by sharing our resources and encouraging employee volunteerism.

CTBC Bank (Philippines) Corp.

CTBC Bank (Philippines) Corp. was established in 1995, when the country opened up to the entry of foreign banks. Amid an intensely competitive arena, CTBC Bank (Philippines) Corp. distinguished itself with a niche-based strategy that demonstrated its efficiency, innovativeness, and customer focus. We drew strength from the global reputation and track record of CTBC, our Parent Bank in Taiwan, and complemented these with our own unique touch of local service and innovation.

In the Philippines, our brand promise "We are Family" has gained new meaning while also holding true to the tradition set by our Parent Bank. CTBC Bank (Philippines) Corp. has achieved this balance by focusing effectively on our chosen markets and developing active partnerships with customers. The results may be seen in our Bank's solid financial performance, innovative products, and responsive services enabled by technology. More importantly, it has shown in the growth that our clients have attained with the Bank by their side.

As we chart our future, we continue to leverage on our Parent Bank franchise and reinforce our efforts to become truly global in our Bank's vision, products and services, systems, and operations. Equally significant has been our emphasis on good corporate governance, keeping pace with international standards and exercising prudence in managing our Bank's resources and risk-taking activities. We remain firmly committed to these goals toward realizing long-term growth while we build our clients' investments, develop our employees' talents and skills, and nurture the communities around us. In directing our capabilities toward these directions, we move closer to our promise of a future secured.

We are Family. We are Caring, Trustworthy, and Professional. We are CTBC Bank.

2017 Annual Report

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- I. **SEC Form 17-A Reports Pages 1 – 43**
- II. **Audited Financial Statements. Pages 1 – 166**
(with Supplementary Schedules)
- III. **Annexes. Pages 1 – 94**
(Additional Disclosures)

Annual Report Year 2017

Submitted to

**Securities and Exchange Commission
(SEC)**

COVER SHEET

A S O 9 5 0 0 8 8 1 4 A

S.E.C. Registration Number

CTBC BANK (PHILIPPINES)
CORPORATION

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

9 8 8 9 - 2 8 7

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

SEC 17-A (2017 ANNUAL REPORT)

Form Type

0 5

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

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

2. SEC Identification Number ----- 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:

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

1634
Postal Code

(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 [x] No []

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

Yes [x] 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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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 February 22, 2017, Messr. Steve Tsai resigned as Director, President and CEO effective February 22, 2017. On the same date, the Board of Directors appointed Mr. Peter Wei a.k.a. Erh-Chang Wei as Director effective February 22, 2017. The Board further appointed Mr. Erh-Chang Wei as President and CEO effective May 2, 2017.

On June 22, 2017, the Bank's stockholders elected the following directors: Jack Lee, William B. Go, Huang Chih-Chung, Frank Shih and Erh-Chang Wei; 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, 2017 posted by Business World, out of the forty three (43) universal and commercial banks operating in the Philippines, the Bank ranked 27th in terms of Total Assets; 21st in terms of Total Loans; 26th in terms of Total Deposits; and 23rd 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

CARD PAYMENTS

CTBC Bank Visa Debit and Cash Card

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

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 (Merchant Biller)
Merchant Acquiring
 BancNet Point-of-Sale (POS)

Dollar Corporate Bonds

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)
CTBC Balanced Feeder Fund (a Peso-Denominated Unit Investment Trust Fund)
CTBC Stock Index Fund Feeder 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	2016	2017
Portfolio Products	51.85%	54.86%
Transactional Banking Products	22.74%	23.22%
Exposure Management Products	19.32%	13.86%

Status of New Products or Services. The Bank launched Wealth Management in May 2016, which offers a suite of products apt for the affluent market.

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 internet and mobile banking channels and other 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 24 branches as of end of December 2017.

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 supplier. - 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, 2017, the Bank had five hundred eighty seven (587) employees composed of 385 officers and 202 staff, with 576 regular employees and 11 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 ($1bp\Delta EVE$) 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	Remarks
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.	consolidated under CTBC
2	Condo	Apolinario Gavina	Unit 16-P 16th Floor, Eastwood Parkview Tower 1, Eastwood City, Libis, Q.C.	consolidated under CTBC
3	Condo	Sps. Joseph / Teresita Parungao	Unit E23B Gueventville II Condominium, Calbayog cor. Libertad Sts., Brgy. Highway Hills, Mandaluyong City	consolidated under CTBC
4	Condo	Eunice Paradero	Unit 17A Tower A Kingswood Towers Condominium, Chino Roces Ave. corner Vito Cruz Ext., Makati City	consolidated under CTBC
5	House & Lot	Jovito Amboyao Escalante	Lot 9, 11, 18 & 20 Block 5 Diana Street, Metro Royale Subdivision Phase 1 Brgy. Burgos Rodriguez Rizal	under C858 expired redemption
6	House & Lot	Sps. Frank Luigi/Ma. Theresa San Jose	Lot 45 Block 3 Pili Street, Camella Springville West Phase, 1, Brgy. Molino, Bacoor Cavite	under C858 expired redemption

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, Bacoor Cavite	under C858 expired redemption
8	House & Lot	Sps. Raymond/Daisy Quiring	Lot 16-3-2-B-3-C Unit C Camia Street, Manuela Subdivision, Pamplona, Las Pinas City	under C858 expired redemption
9	House & Lot	Sps. Leonardo Jr./Rose Marie Lugares	Lot 16 Block 1 Juniper Street, Milflora Villas, Sabang, Baliuag Bulacan	under C858 expired redemption
10	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	under C858 expired redemption
11	House & Lot	Sps. Merle/Jessie Carlos	Lot 8 Block 3, Chiavenna Street, Courtyard of Maia Alta Subd., Brgy. Dalig Antipolo City	under C858 expired redemption
12	House & Lot	Sps. Jacqueline/Conrado Guezon	Lot 12 Block 10 J.P. Laurel Street, Carmel Subdivision, Barangay 7, Poblacion, Lipa City, Batangas	under C858 expired redemption
13	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	under C858 expired redemption
14	House & Lot	Sps. Joseph/Gina Bongo	Lot 12 Block 2 H. Poblador Street, BF Resort Village Brgy. Talon Dos, Las Pinas City	under C858 expired redemption
15	House & Lot	Sps. Rolf Henrick/Cristina Hansen	Lot 5178-D-6-A Paseo Ramon, White Sands Resort Villas, Brgy. Maribago, Lapu-Lapu City, Cebu	under C858 within redemption
16	House & Lot	Sps. Elmer/Elyn Montague	Lot 11 Block 8 Sparta Drive, Olympia Park Subd., Brgy. Labas Sta Rosa Laguna	under C858 within redemption
17	House & Lot	Illuminada Diaz Morante	Lot 4-A (Unit A), San Felipe Street, San Antonio Valley 2, Barangay San Isidro, Paranaque City	under C858 within redemption

18	House & Lot	Sps.Roberto/Racquel Robes	Lot 9 Block 8 (No. 30) Cairo Street, Multinational Village, Barangay Moonwalk, Paranaque City	under C858 within redemption
19	House & Lot	Sps.Ernino/Maria Amylie Escalante	Lot 5 Block 2 (No. 429), Turquoise Street, Palmera Homes II-C, Brgy. San Isidro, Taytay Rizal	under C858 within redemption

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	PhP2,991,931.96	14-Apr-20	90 days notification
22nd Floor of Fort Legend Towers	Bonifacio Global City, Taguig City 1634	4 years	PhP566,618.85	30-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-18	30 days notification
8Forbestown Road Condominium	Taguig City	1 year	PhP110,000.00	24-Jan-19	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP80,000.00	31-Aug-18	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP100,000.00	19-Aug-18	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP136,000.00	21-Apr-18	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP112,000.00	24-Feb-19	30 days notification
The Luxe Residences	Taguig City	1 year	PhP112,000.00	07-Oct-18	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP118,000.00	06-Feb-19	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP136,000.00	07-Jul-18	30 days notification

c. Branches Business Centers

NAME OF BRANCH	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE	RENEWAL TERM
Alabang	Muntinlupa City	5 years	PhP289,392.08	28-Feb-22	90 days notification
Angeles	Angeles City	5 years	PhP168,525.00	14-Jun-21	60 days notification
Ayala	Makati City	5 years	PhP137,845.96	31-Mar-21	60 days notification
Bonifacio Global City	Taguig City	10 years	PhP142,854.64	14-Apr-20	90 days notification
Binondo	Manila	5 years	PhP193,576.81	31-May-21	90 days notification
Buendia	Makati City	5 years	PhP171,470.00	31-May-18	60 days notification
Cagayan de Oro	Cagayan de Oro	5 years	PhP193,259.00	31-Oct-21	60 days notification
Carmona	Cavite	5 years	PhP99,287.30	31-Dec-20	60 days notification
Cavite	Cavite	5 years	PhP80,562.82	31-Dec-22	60 days notification
Cebu-Banilad	Cebu City	5 years	PhP292,723.20	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	PhP176,400.00	30-Jun-21	60 days notification
Dela Costa	Makati City	5 years	PhP306,877.95	14-Oct-21	90 days notification
Del Monte	Quezon City	5 years	PhP128,400.00	1-Jul-22	60 days notification
Greenhills	San Juan City	5 years	PhP245,074.37	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	PhP201,734.40	31-May-22	60 days notification
Mabini	Manila	5 years	PhP182,717.64	30-Jun-19	60 days notification
Marikina	Marikina City	5 years	PhP89,880.00	31-Dec-20	60 days notification
Ortigas	Pasig City	5 years	PhP397,237.08	6-Jul-19	60 days notification
Rada	Makati City	5 years	PhP195,003.20	30-Jun-21	90 days notification
Subic	Zambales	5 years	\$3,010.20	3-Jan-19	90 days notification
Sucacat	Paranaque City	5 years	PhP127,960.04	28-Feb-20	180 days notification
Taytay	Taytay Rizal	5 years	PhP89,603.44	20-Jan-19	90 days notification

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, 2018 is 110.

Common Shares outstanding as of February 28, 2018 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, 2018 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 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%.

FY 2017 Compared to FY 2016

For the year ending December 31, 2017, CTBC audited net income grew by 35% to P288 million from P213 million in 2016. The higher net income was mainly attributed to the increase in revenues which moved up by 5% to P2.35B from P2.25B. This performance translated to a 4.0% return on equity (ROE) and 0.8% return on assets (ROA).

Net interest income rose by 11.6%, from PhP1.618 billion to PhP1.806 billion. The improvement in net interest income was spurred by a 18% increase in average loan balances, which grew by Php3.78 billion.

The Bank set aside Php200 million as provisions for impairment and credit losses for the year, this is Php34M lower than last year's Php234 million provisions.

Total resources of the Bank grew by 12% to P40.33 billion this year as compared with 2016 year-end level of Php36.06 billion. Net loans and receivables increased by 22%, or P5.01 billion, owing to the steady growth on corporate loans. Total liabilities increased by 14% to P32.99 billion mainly on account of higher bills payable at the end of the period.

Asset quality showed better ratios in 2017. Non-performing loans (NPL) ratio as of December 31, 2017 slightly increased to 0.72% from 0.70% in December 2016 while NPL coverage is at 95% from 98% as of end of last year. Further, the Bank once again manifested its financial strength with a high capital adequacy ratio, which stood at 19.4% for 2017. 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, 2017	December 31, 2016
Return on Average Equity (ROE)	4.0%	3.0%
Return on Average Assets (ROA)	0.8%	0.6%
Cost-to-Income Ratio	74.5%	74.7%

	December 31, 2017	December 31, 2016
Non-Performing Loan Ratio (NPL)	0.72%	0.70%
Non Performing Loan Cover	95%	98%
Capital Adequacy Ratio	19.4%	22.5%

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, 2017**

Liquidity Ratio

The ratio for the years 2017 and 2016 are as follows:

	2017	2016
Net liquid assets	P6,581,471,674	P12,291,864,487
Total deposits	26,701,900,983	26,967,086,220
Ratio of net liquid assets to total deposits	24.6%	45.6%

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 2017 and 2016 are as follows:

	2017	2016
Total liabilities	P32,986,083,120	P28,934,599,546
Total equity	7,340,189,331	7,129,153,350
Ratio of debt to equity	449.4%	405.9%

Assets to Equity Ratio

The ratio for the years 2017 and 2016 are as follows:

	2017	2016
Total assets	P40,326,272,451	P36,063,752,896
Total equity	7,340,189,331	7,129,153,350
Ratio of total assets to equity	549.4%	505.9%

Interest Rate Coverage Ratio

The ratio for the years 2017 and 2016 are as follows:

	2017	2016
Income before income tax	P398,770,794	P334,099,370
Interest expense	238,299,273	156,633,404
Interest coverage ratio	167.3%	213.3%

Profitability Ratios

The ratio for the years 2017 and 2016 are as follows:

	2017	2016
a.) Net income	P287,954,120	P213,047,078
b.) Average total equity	7,279,470,459	7,079,072,847
Return on average equity (a/b)	4.0%	3.0%
c.) Net income	P287,954,120	P213,047,078
d.) Average total assets	37,982,896,841	32,840,188,953
Return on average assets (c/d)	0.8%	0.6%
e.) Net interest income	P1,805,815,596	P1,617,589,511
f.) Average interest earning assets	37,690,295,706	30,438,256,293
Net interest margin on average earning assets (e/f)	4.8%	5.3%

Additional Management Discussion and Analysis (for those with variances of more than 5% December 31, 2017 vs. December 31, 2016)

Balance Sheet –

Cash and other cash items increased by 6% from P428M to P452M this year.

Due from Bangko Sentral ng Pilipinas went down by 43% from P6.08 billion to P3.49 billion. Likewise, Due from other banks decreased by 59% from P2.13 billion to P879 million. Also, Interbank loans receivable rose from P2.16 billion to P4.62 billion in December 2017 mainly due to increase in local currency lending this year as compared last year.

Financial assets at FVPL decreased to P416.13 million from P567.09 million due to decrease in the volume of peso held-for-trading (HFT) – treasury notes. Meanwhile, Available for Sale securities rose to P1.07 billion from P963.7 million and Held to Maturity (HTM) investments went up by P579.88 million mainly attributable to higher volume of foreign currency denominated HTM securities by P366.67 million.

Loans and receivables (net) went up by 22% from P22.5 billion to P27.5 billion on account of additional corporate loans booked during the period.

Property, Plant, & Equipment (net) increased by 7% from P144.22 million to P154.98 million mainly due to newly purchased assets this year. Likewise, Investment Properties rose to P109.78 million from P93.73 million on account of various foreclosures during the year. Also, Deferred Income Tax (DIT) increased by 29% from P106.18 million to P136.62 million.

Bills payable increased by P4.28 billion on account of additional borrowings this year. Likewise, Derivative liabilities went up by P30.55 million from P32.59 million last year as a result of the movements in the fair value of derivative products. Also, Outstanding Acceptances rose by P253.85 million due to the higher volume of foreign currency acceptances. Conversely, the Managers' check went down by P16.9 million from P52.2 million last year.

Accrued Interest, Taxes and Other Expenses rose by 19% from P359.7 million to P427.8 million due to higher interest payable on borrowings at period-end. Accrued Income Tax Payable increased by P18.6 million this year, while Other Liabilities went down by 21% mainly due to lower accounts payable, miscellaneous liabilities, and withholding taxes payable.

Income Statement (variance analysis for December 31, 2017 vs. December 31, 2016)

Interest income on loans and receivables went up by 12% from P1.67 billion to P1.87 billion this year. Also, Interest income on trading and investment securities increased by P43.98 million to P93.08 million this period. Likewise, interest income from deposits with other banks rose by P18.83 million from P17.92 last year. Furthermore, interest income on interbank loans went up by 16.75% due to the increase in average volume of both peso and foreign currency interbank loans receivable.

Interest expenses on deposit liabilities rose by 44.44% owing to the higher average volume of both peso and foreign currency deposits. Similarly, interest expense on bills payable went up by P15.6 million from P7.87 million due to higher average volume of foreign currency borrowings during the period.

Service charges, handling fees and commission income increased by 5.48% mainly due to higher ATM related transaction fees this year. Also, Miscellaneous income rose by P34.3 million from P104.6 million registered last year. While total trading gains and foreign exchange gains went down by P132.6 million, 45.2% lower than the same period last year.

Provision for impairment and credit losses totaled Php200 million as of December 31, 2017, or a 14.0% decrease from the Php234 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 10% from P197.5 million to P217.3 million. Taxes and licenses rose by P18.3 million to P176.3 million last year. Depreciation and amortization increased by 25.93% to P58.8 million on account of various assets' purchased during the period. On the other hand, Amortization of software licenses dropped by 7.9% from P36.2 million to P33.4 million.

Provision for income taxes went down by P10.2 million from Php121.1 million to P110.8 million.

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 2016 paid in 2016	Php616,000.00
For 2016 paid in 2017	Php400,400.00
For 2017 paid in 2017	Php739,200.00
For 2017 paid in 2018	Php492,800.00

For the calendar years 2017 and 2016, RGM, the local firm of KPMG International has been appointed as the Bank's external auditor.

To date, RGM has unbilled charges of Php669,173.12 for 2017 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 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, 2017, 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, 2017**

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning ¹		P -
Net income during the year closed to retained earnings	287,954,120	
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)	(104,075,753)	
Unrealized actuarial gain	-	
Fair value adjustment (marking to market gains)	(2,307,282)	
Provision for deferred tax asset	30,434,593	
Fair value adjustment of Investment Property/AR-ICCS resulting in gain	19,116,378	
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	3,777,601	
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	341,008,583	
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	(341,008,583)	
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.

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

For the calendar years 2016 and 2017, 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:

LEE WEN-HUNG a.k.a. Jack Lee, 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 President Commissioner of PT Bank CTBC Indonesia (Bank CTBC Indonesia) since December 2011. Mr. Lee has been with CTBC Bank Co., Ltd. since 1983. He served various positions as the Chairman of CTBC Venture Capital Co., Ltd. From 2008 to 2014, Chairman of CTBC Asset Management Co., Ltd. from 2011 to 2012, 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 64 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 78 years old.

ERH-CHANG WEI, a.k.a. Peter Wei, Taiwanese, was elected to the Board as Director on February 22, 2017 and President and CEO of CTBC Bank (Philippines) Corp. on May 2, 2017. He obtained his Bachelor of Agricultural Mechanical Engineering degree and Masters in Business Administration from the National Taiwan University. He has been with CTBC Bank since March 2006 and held various positions as Executive Vice President of Overseas Division, Retail Banking from 2011 to February 22, 2017; Head of Strategic Planning Department where he was directly involved in Customer Relationship Management, Auto Channel and Small-and-Medium Enterprises from 2006 to 2011; and Director in CTBC Indonesia from 2012 to March 17, 2017. Prior to joining CTBC Bank Co. Ltd., he served as Senior Vice President of the Middle Market Division and Transactional Banking of ABN AMRO Bank (HK). He is 53 years old.

HUANG CHIH-CHUNG a.k.a. C.C. Huang, 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 Risk Management Group, and 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 55 years old.

YI HUANG, a.k.a. Nick Huang, Taiwanese, obtained his Bachelor of Civil Engineering degree and Masters in Business Administration from the National Taiwan University. He is concurrently the Deputy CEO of Institutional and International Banking of CTBC Bank Co., Ltd. Mr. Huang has over 27-year experience in the financial industry. Prior to joining CTBC Bank, he served as Vice Chairman/Managing Director of JP Morgan China from 2013 to 2017; Alternate CEO of CITIC Bank International from 2009 to 2012; Managing Director of Citigroup Greater China from 2005 to 2006; Financial Institution and Public Sector Head of Citigroup China from 2002 to 2005; and held various positions in Citigroup Taiwan from 1989 to 2005. He is 53 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 Owner/Vice President of Edsa Cinema 2000, Inc., and Vice Chairman of FSM Cinema Inc. He is 72 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 Credit Access Philippines Financing Corp (formerly Microventures Financing Corp.), Makati Supermart Group, Testech Inc., DFNN Inc., and Iwave Inc., and Advisor to the Board of CDC/Quadrillion Group, and to the Board of Philratings, Inc. He is 67 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:

ERH-CHANG WEI, a.k.a. Peter Wei, Taiwanese, was elected to the Board as Director on February 22, 2017 and President and CEO of CTBC Bank (Philippines) Corp. on May 2, 2017. He obtained his Bachelor of Agricultural Mechanical Engineering degree and Masters in Business Administration from the National Taiwan University. He has been with CTBC Bank since March 2006 and held various positions as Executive Vice President of Overseas Division, Retail Banking from 2011 to February 22, 2017; Head of Strategic Planning Department where he was directly involved in Customer Relationship Management, Auto Channel and Small-and-Medium Enterprises from 2006 to 2011; and Director in CTBC Indonesia from 2012 to March 17, 2017. Prior to joining CTBC Bank Co. Ltd., he served as Senior Vice President of the Middle Market Division and Transactional Banking of ABN AMRO Bank (HK). He 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 64 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 51 years old.

LOLITO RAMON A. CERRER, JR., Filipino, earned his AB Philosophy degree from the Ateneo De Manila University. Prior to joining CTBC Bank as Senior Vice President and Consumer Finance Sales Unsecured Head in April 2017, he was previously the Head of Personal Loans of Security Bank, a role he performed for five years. He likewise had stints at Philippine Savings Bank, APEX Distributors Inc., Metrovet Philippines, Century Canning Corporation, Universal Food Corporation and Philippines

Commercial International Bank. At the early part of his career, Jun taught philosophy at the Holy Apostles Senior Seminary. Jun is 55 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 57 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 and Other Banking Channels on December 09, 2014. He also concurrently heads the Sales and Distribution arm of the Bank's retail business. 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 39 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 46 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 54 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 60 years old.

RAFAEL V. RUFINO III, Filipino, holds a degree in Commerce from De La Salle University. Mr. Rufino was first introduced to the banking profession in 1991 when he joined 1st E-Bank initially as an Account Analyst and later on as an e-Business Banking Unit Head. He spent the next 11 years with 1st E-Bank before joining CTBC Bank in 2003. At CTBC, Mr. Rufino further expanded and solidified his knowledge of the credit process as a result of his being assigned in various roles of increasing responsibility from Account Officer to Credit Officer to Credit Control Department Head and eventually Group Head. He is currently Senior Vice President and Head of Institutional Credit Management Group. He is 49 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 48 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 51 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 47 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

Name	IN MILLION PESOS			
	Annual Salary	Bonus	Others	Total
2016				
Executives (5)	38.12	5.22	14.52	57.86
2017				
Executives (5)	40.77	5.33	17.55	63.65
2018				
Executives (5) (Estimate)	38.25	5.90	25.81	69.96

In 2017, the Bank paid approximately P63.65 million as a total compensation to the following executive officers:

Steve Tsai	President and CEO (up to 22 February 2017)
Peter Wei	President and CEO (starting 02 May 2017)
Ismael R. Sandig	Senior Executive Vice-President
Jamie Wang	Executive Vice-President
Oliver D. Jimeno	Executive Vice-President
Cecilia E. Tabuena	Senior Vice-President

For the year 2018, it is estimated that approximately P69.96 million will be paid to the following executive officers:

Peter Wei	President and CEO
Jamie Wang	Executive Vice-President
Oliver D. Jimeno	Executive Vice-President
Gretchen S. Macabasco	Senior Vice-President
Remo Romulo M. Garrovillo, Jr.	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 P8.64 million in 2017. Out of this P8.64 million, the amount of P2.97 million was paid as per diem for Board meeting attendance and P3.17 million for Board Committee meeting attendance. For the year 2018, it is estimated that approximately P8.96 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 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, 2018

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 Makati Diamond Residences, 118 Legaspi St., Legaspi Village, Makati City 1229	Erh-Chang Wei a.k.a. Peter Wei	Taiwanese	1	0.00
Common	C.C. Huang Fl. 12, No. 168, Jingmao 2 nd Rd., Nankang Dist., Taipei City, Taiwan	C.C. Huang	Taiwanese	1	0.00
Common	Yi Huang A903 No. 126, Sec. 5 Xinyi Rd., Xinyi District, Taipei, Taiwan, ROC	Yi Huang (a.k.a. Nick Huang)	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
				<u>61</u>	

b. Executive Officers as of February 28, 2018

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	Erh-Chang Wei Makati Diamond Residences, 118 Legaspi St., Legaspi Village, Makati City 1229	Erh-Chang Wei a.k.a. Peter Wei	Taiwanese	1	0.00

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 PAS 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 79 of the Bank's Audited Financial Statements for the fiscal year ended as of December 31, 2017, 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, Erh-Chang Wei 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 Independent Director Ng Meng Tam as Chairman, with Jack Lee, William B. Go, Edwin B. Villanueva, and Nick Huang 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 Nick Huang 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, Erh-Chang Wei, Nick Huang 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, Erh-Chang Wei, 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
October 30, 2017	Item 4. Resignation, Removal or Election of Registrant's Directors or Officers

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 24th day April 2018.

By:


**ERH-CHANG WEI a.k.a.
 PETER WEI**
President and CEO
Principal Executive Officer
TIN: 498-488-868


ANDREW A. FALCON, FVP
**Principal Financial Officer, Comptroller &
 Principal Accounting Officer**
TIN: 229-140-289


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 24th day of April 2018 affiants exhibiting to me their Passport/SSS ID Nos., as follows:

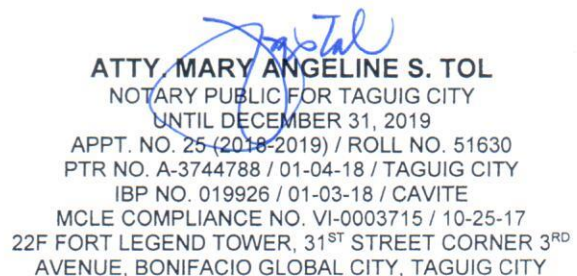
NAMES	Passport/SSS I.D. NO.	DATE/PLACE OF ISSUE
Erh-Chang (Peter) Wei	Passport# 305439943	4/6/2012 Taiwan
Andrew A. Falcon	SSS ID No. 33-8761568-1	
Atty. Maritess P. Elbinias	SSS ID No. 03-8177518-0	

Doc. No. 73 _____;

Page No. 16 _____;

Book No. II _____;

Series of 2018.


ATTY. MARY ANGELINE S. TOL
 NOTARY PUBLIC FOR TAGUIG CITY
 UNTIL DECEMBER 31, 2019
 APPT. NO. 25 (2018-2019) / ROLL NO. 51630
 PTR NO. A-3744788 / 01-04-18 / TAGUIG CITY
 IBP NO. 019926 / 01-03-18 / CAVITE
 MCLE COMPLIANCE NO. VI-0003715 / 10-25-17
 22F 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, 2017 and 2016**



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, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

R.G. Manabat & Co., the independent auditor, appointed by the stockholders for the period December 31, 2017 and 2016, 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

WEI, ERH-CHANG a.k.a PETER WEI

President and Chief Executive Officer

ANDREW A. FALCON

First Vice-President
Chief Financial Officer

MAR 08 2018

Signed this _____ day of _____ 2018.

SUBSCRIBED AND SWORN to before me this MAR 08 2018 day of _____ 2018
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
WEI, ERH-CHANG a.k.a. PETER WEI	Passport# 305439943 TIN 498-488-868	April 6, 2012 / Taiwan
ANDREW A. FALCON	SSS ID 33-8761568-1 TIN 229-140-289	

Doc. No. 353 ;

Page No. 72 ;

Book No. I ;

Series of 2018.


ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DECEMBER 31, 2019
APPT NO 25 (2018-2019) / ROLL NO 51630
PTR NO. A-3744788 / 01-04-18 / TAGUIG CITY
IBP NO. 019926 / 01-03-18 / CAVITE
MCLE COMPLIANCE NO. V-0003715 / 10-25-17
22F FORT LEGEND TOWER, 31ST STREET CORNER 3RD
AVENUE BONIFACIO GLOBAL CITY, TAGUIG CITY

CTBC BANK (PHILIPPINES) CORPORATION

FINANCIAL STATEMENTS
December 31, 2017 and 2016



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

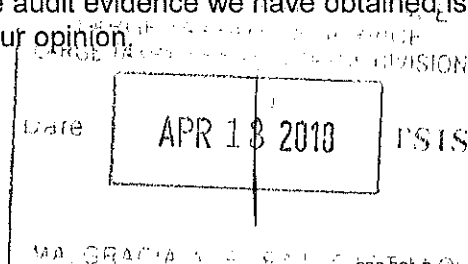
Opinion

We have audited the financial statements of CTBC Bank (Philippines) Corporation (the Bank), which comprise the statements of financial position as at December 31, 2017 and 2016, 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, 2017 and 2016, 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 audit 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.

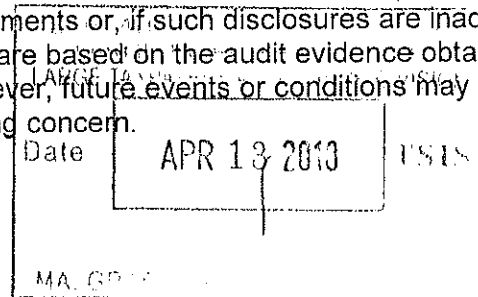
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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 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 information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS

Partner

CPA License No. 0102309

BSP - Selected External Auditor, Category A, valid for 1-year audit period (2017)

SEC Accreditation No. 1619-A, Group A, valid until March 15, 2020

Tax Identification No. 920-961-311

BIR Accreditation No. 08-001987-38-2016

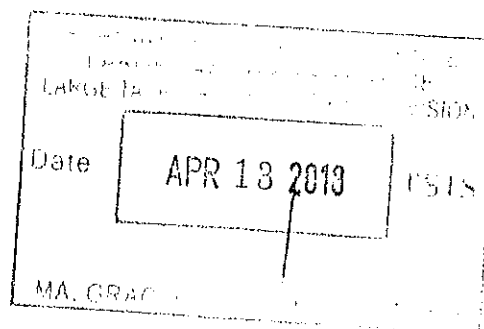
Issued December 16, 2016; valid until December 15, 2019

PTR No. 6615139MD

Issued January 3, 2018 at Makati City

March 8, 2018

Makati City, Metro Manila





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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, 2017, on which we have rendered our report dated March 8, 2018.

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.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP - Selected External Auditor, Category A, valid for 1-year audit period (2017)
SEC Accreditation No. 1619-A, Group A, valid until March 15, 2020
Tax Identification No. 920-961-311
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Issued December 16, 2016; valid until December 15, 2019
PTR No. 6615139MD
Issued January 3, 2018 at Makati City

March 8, 2018
Makati City, Metro Manila

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF FINANCIAL POSITION

December 31

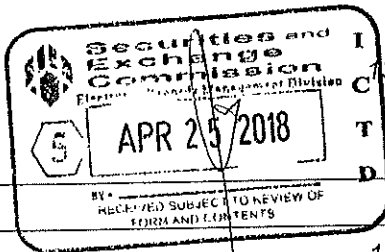
	Note	2017	2016
ASSETS			
Cash and Other Cash Items	17	P452,374,266	P428,066,149
Due from Bangko Sentral ng Pilipinas	13, 17	3,492,925,784	6,078,965,189
Due from Other Banks	17, 26	879,092,880	2,129,327,639
Interbank Loans Receivable	17	4,618,098,194	2,157,291,749
Financial Assets at Fair Value through Profit or Loss	7, 17, 27	416,129,671	567,093,085
Available-for-Sale Investments	7, 17	1,070,821,205	963,713,443
Held-to-Maturity Investments	7, 17	1,110,295,691	530,419,396
Loans and Receivables - net	8, 12, 17, 26	27,502,293,563	22,495,404,841
Property and Equipment - net	9, 17	154,975,021	144,217,947
Investment Properties - net	10, 17	109,776,238	93,728,683
Deferred Tax Assets - net	17, 21	136,618,524	106,183,931
Other Assets	11, 17	382,871,414	369,340,844
		P40,326,272,451	P36,063,752,896

LIABILITIES AND EQUITY

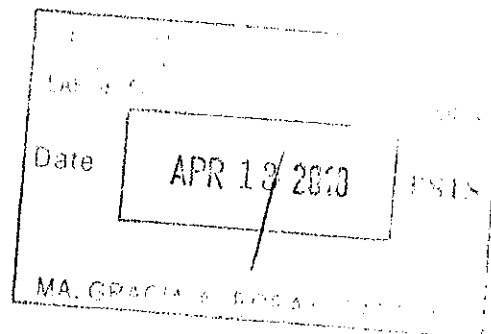
LIABILITIES

Deposit Liabilities

Demand	13, 17	P7,312,403,130	P7,721,529,036
Savings		5,806,852,492	5,841,157,648
Time		13,582,645,361	13,404,399,536
		26,701,900,983	26,967,086,220
Derivative Liabilities	17, 27	63,147,488	32,592,767
Bills Payable	14, 17	4,284,822,838	-
Outstanding Acceptances	17	264,437,832	10,584,111
Manager's Checks	17	35,241,990	52,176,964
Accrued Interest, Taxes and Other Expenses	15, 17	427,761,749	359,703,760
Income Tax Payable	17	18,596,133	-
Other Liabilities	16, 17	1,190,174,107	1,512,455,724
		32,986,083,120	28,934,599,546

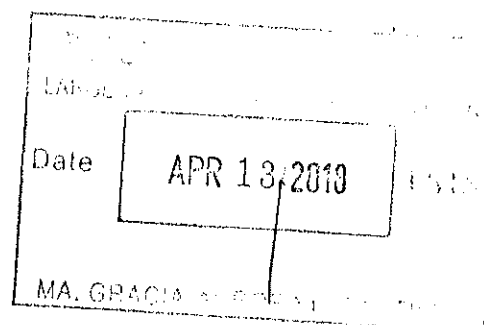


Forward



		December 31	
	Note	2017	2016
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		4,880,412,185	4,592,458,065
Statutory Reserve	23	4,981,159	4,981,159
Cumulative Translation Adjustments		8,460,828	29,882,305
Net Unrealized Loss on Available-for-Sale Investments	7	(15,506,159)	(28,926,484)
Net Unrealized (Loss) Gain on Retirement Obligation		(55,407,993)	13,508,994
		7,340,189,331	7,129,153,350
		P40,326,272,451	P36,063,752,896

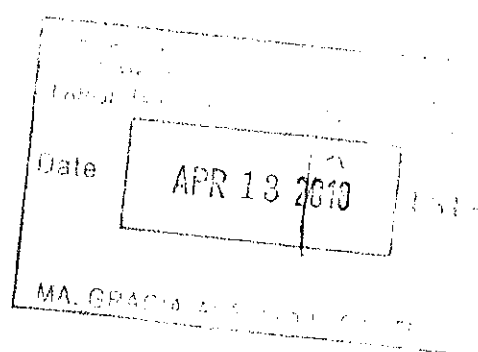
See Notes to the Financial Statements.



CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2017	2016
INTEREST INCOME			
Loans and receivables	8	P1,873,229,847	P1,672,036,923
Trading and investment securities	7	93,081,981	49,105,588
Interbank loans receivable		41,055,225	35,163,639
Deposits with Bangko Sentral ng Pilipinas and other banks		36,747,816	17,916,765
		2,044,114,869	1,774,222,915
INTEREST EXPENSE			
Deposit liabilities	13	214,880,466	148,765,493
Bills payable and other borrowings	14	23,418,807	7,867,911
		238,299,273	156,633,404
NET INTEREST INCOME		1,805,815,596	1,617,589,511
Service fees and commission income	22	245,886,894	233,103,873
Trading and securities gain - net	7	11,418,383	192,869,172
Foreign exchange gain - net		149,084,463	100,224,908
Miscellaneous - net	22	138,931,306	104,596,132
TOTAL OPERATING INCOME		2,351,136,642	2,248,383,596
Compensation and fringe benefits	19, 26	891,036,648	870,532,300
Impairment losses	12	200,414,216	234,025,781
Occupancy and other equipment-related costs	20	217,287,958	197,476,064
Taxes and licenses	29	176,342,703	158,088,667
Security, messengerial and janitorial expenses		161,284,282	156,810,513
Depreciation and amortization	9, 10	58,823,070	46,709,584
Amortization of computer software costs	11	33,384,896	36,243,178
Miscellaneous	22	213,792,075	214,398,139
TOTAL OPERATING EXPENSES		1,952,365,848	1,914,284,226
INCOME BEFORE INCOME TAX		398,770,794	334,099,370
INCOME TAXES	21	110,816,674	121,052,292
NET INCOME		P287,954,120	P213,047,078
BASIC/DILUTED EARNINGS PER SHARE	28	P1.16	P0.86

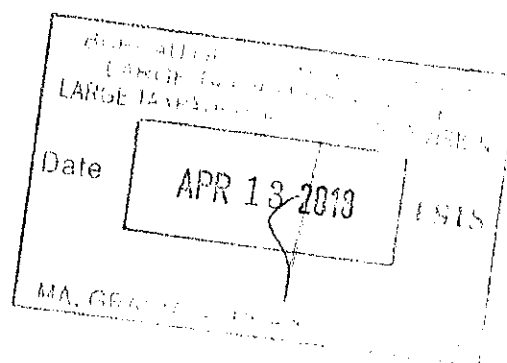
See Notes to the Financial Statements.



CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	Note	2017	2016
NET INCOME FOR THE YEAR		P287,954,120	P213,047,078
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR			
<i>Items that may not be reclassified to profit or loss</i>			
Net unrealized gain (loss) on retirement obligation	19	(68,916,987)	11,580,893
<i>Items that may be reclassified to profit or loss</i>			
Net unrealized gain (loss) on available-for-sale investments	7	13,420,325	(5,112,308)
Cumulative translation adjustments		(21,421,477)	17,154,373
		(8,001,152)	12,042,065
		(76,918,139)	23,622,958
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		P211,035,981	P236,670,036

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)
Balance at January 1, 2017	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
Net income for the year	-	-	-	287,954,120	-	-	-	P7,129,128
Other Comprehensive Income for the Year								
Items that may not be reclassified to profit or loss								
- Net unrealized gain (loss) on retirement obligation	-	-	-	-	-	-	-	(68,916,987)
Items that may be reclassified to profit or loss								
- Net unrealized gain (loss) on available-for-sale investments	-	-	-	-	-	-	13,420,325	-
- Cumulative translation adjustments	-	-	-	-	-	(21,421,477)	-	13,420,325
Balance at December 31, 2017	P2,479,687,310	(P15,951,674)	P53,513,675	P4,880,412,185	P4,981,159	P8,460,828	(P15,506,169)	(P55,407,993)
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
Net income for the year	-	-	-	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
Items that may be reclassified to profit or loss								
- Net unrealized gain (loss) on available-for-sale investments	-	-	-	-	-	-	(5,112,308)	-
- Cumulative translation adjustments	-	-	-	-	-	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

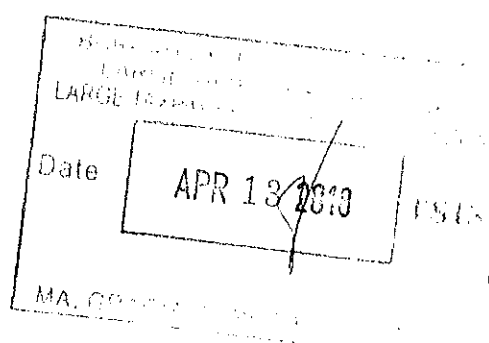
See Notes to the Financial Statements.

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF CASH FLOWS

Years Ended December 31

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P398,770,794	P334,099,370
Adjustments for:			
Impairment losses	12	200,414,216	234,025,781
Depreciation and amortization	9, 10	58,823,070	46,709,584
Amortization of computer software costs	11	33,384,896	36,243,178
Retirement expense charged to profit or loss	19	20,857,694	22,696,434
Dividend income	22	4,066,000	4,840,230
Mark-to-market loss (gain) on trading securities	7	2,307,282	123,643
Impairment losses (reversal of impairment losses) on investment property	10	1,716,291	(79,464)
Loss on disposal of computer software		666,313	410,665
Amortization of deferred charges		77,263	237,753
Foreign exchange revaluation loss on bills payable		-	163,185,971
Gain on disposal of property and equipment		(16,578)	(198,515)
Gain (loss) on disposal of investment property		(6,963,144)	127,189
Amortization of net discount on available-for-sale (AFS) and held-to-maturity (HTM) investments		26,242,701	18,498,097
Contribution to the retirement plan	19	(20,857,694)	(22,696,434)
Realized gain on sale of AFS and HTM		(21,722,474)	(41,776,805)
Foreign exchange revaluation gain on trading and investment securities		(26,251,477)	(30,725,627)
Changes in operating assets and liabilities:			
Decrease (increase) in amounts of:			
Financial assets at fair value through profit or loss		148,656,132	(363,599,867)
Loans and receivables		(5,207,302,938)	(1,842,664,344)
Other assets		(69,587,145)	(85,396,276)
Increase (decrease) in amounts of:			
Deposit liabilities		(265,185,237)	7,643,612,158
Derivative liabilities		30,554,721	(13,897,385)
Outstanding acceptances		253,853,721	(8,519,109)
Manager's checks		(16,934,974)	13,808,467
Accrued interest, taxes and other expenses		68,057,989	50,035,356
Other liabilities		(354,515,841)	228,743,431
Net cash (used in) generated from operations		(4,740,888,419)	6,387,843,481
Income taxes paid		(122,655,134)	(122,345,843)
Net cash (used in) provided by operating activities		(4,863,543,553)	6,265,497,638

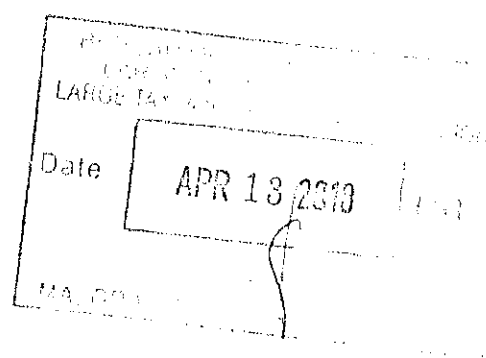
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Years Ended December 31

	Note	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
AFS investments		(P948,810,000)	(P1,093,840,000)
HTM investments		(606,399,711)	(266,600,000)
Property and equipment	9	(75,558,522)	(69,484,324)
Investment property		(43,074,950)	(66,068,148)
Computer software costs	11	(14,754,659)	(6,173,645)
Proceeds from disposals of:			
AFS investments		812,378,841	1,090,115,031
Property and equipment		8,705,548	3,926,266
Investment property		29,563,655	1,524,393
Computer software costs		-	-
Proceeds from maturity of AFS and HTM investments			
		69,576,911	84,742,207
Dividends received	22	(4,066,000)	(4,840,230)
Net cash used in investing activities		(772,438,887)	(326,698,450)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable		28,848,285,527	38,349,790,416
Settlement of bills payable		(24,563,462,689)	(41,262,137,426)
Net cash provided by (used in) financing activities		4,284,822,838	(2,912,347,010)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			
		(1,351,159,602)	3,026,452,178
CASH AND CASH EQUIVALENTS AT BEGINNING 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
		10,793,650,726	7,767,198,548
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		452,374,266	428,066,149
Due from Bangko Sentral ng Pilipinas		3,492,925,784	6,078,965,189
Due from other banks		879,092,880	2,129,327,639
Interbank loans receivable		4,618,098,194	2,157,291,749
		P9,442,491,124	P10,793,650,726
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		P1,951,032,889	P1,797,347,381
Interest paid		(193,594,032)	(122,345,843)
		P1,757,438,857	P1,675,001,538

See Notes to the Financial Statements.



CTBC BANK (PHILIPPINES) CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

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.

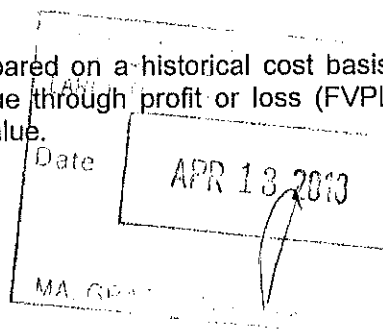
2. Basis of Preparation and Statement of Compliance

Statement of Compliance

The 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 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

The functional currency of RBU and FCDU is the Philippine Peso (PHP) 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.

The financial statements of the Bank are presented in PHP.

Approval of Issuance of Financial Statements

These financial statements of the Bank were authorized for issue by the BOD of the Bank on March 8, 2018.

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, 2017 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.

- *Disclosure Initiative (Amendments to PAS 7 Statement of Cash Flows).* 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 statements of financial position for liabilities arising from financing activities.
- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12 Income Taxes).* 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.

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 translation 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 FPVL 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 - 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 2017 and 2016, 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 "Impairment 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 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 loans and receivables" in the statements of income. The losses arising from impairment of loans and receivables are recognized in "Impairment 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 "Miscellaneous income" 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 "Impairment 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 Non-financial 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 "Impairment 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.

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.

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, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, 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, 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, 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 standard will also give rise to additional allowance for credit losses due to the adoption of the Expected Credit Loss (ECL) model. The Bank has conducted a detailed impact evaluation of PFRS 9 as of December 31, 2017. The estimated reduction of Retained Earnings as a result of the additional allowance for credit losses amount to P241.3 million. To date, the Bank is still assessing its plans on how to perform an independent validation of its ECL model.

- 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.

The Bank is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date.

- *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.

The Bank is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date.

- *Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in *PAS 12 Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

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, 2017 and 2016, the carrying value of HTM investments amounted to P1.1 billion and P530.4 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, 2017 and 2016, derivative assets amounted to P75.9 million and P148.6 million, respectively. As of December 31, 2017 and 2016, derivative liabilities amounted to P63.1 million and P32.6 million, respectively (see Notes 7 and 27).

Impairment of AFS Unquoted Equity Investments

The Bank treats AFS unquoted 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, 2017 and 2016, the carrying value of AFS unquoted equity investments amounted to P12.4 million (see Note 7).

Impairment Losses on Loans and Receivables

The Bank reviews its impaired loans and receivables at least semi-annually to assess whether additional impairment 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, 2017 and 2016, allowance for impairment losses on loans and receivables of the Bank amounted to P462.5 million and P523.1 million, respectively (see Notes 8 and 12). The carrying value of loans and receivables, net of allowance for impairment losses, amounted to P27.5 billion and P22.5 billion as of December 31, 2017 and 2016, respectively (see Note 8).

Impairment of Non-financial 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, 2017 and 2016, the carrying value of property and equipment amounted to P155.0 million and P144.2 million, respectively (see Note 9). As of December 31, 2017 and 2016, the carrying value of investment properties amounted to P109.8 million and P93.7 million, respectively (see Note 10). As of December 31, 2017 and 2016, the carrying value of computer software costs amounted to P46.8 million and P66.1 million, respectively (see Note 11).

Impairment losses (reversal of impairment losses) on non-financial assets recognized in the statements of income amounted to P1.7 million and (P0.1 million) as of December 31, 2017 and 2016, respectively (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 at December 31, 2017 and 2016 amounting to P151.6 million and P156.9 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 P214.4 million and P156.9 million as at December 31, 2017 and 2016, respectively (see Note 19).

The net pension (liability) asset of the Bank amounted to (P32.2 million) and P36.7 million as at December 31, 2017 and 2016, respectively (see Notes 11, 15 and 19).

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 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 oversee the risk management function and to support the board of directors in the development of risk appetite and risk appetite statement (RAS) of the Bank and for translating the risk appetite into a risk limits structure.
 - Ongoing monitoring of the Bank's risk profile and risk exposures with respect to the following:
 - Risk Appetite.
 - Performance vs. Risk Tolerance.
 - Risk trends.
 - Risk concentrations.
 - Allowance for Loan Losses.
 - Key Performance Indicators for risk.
 - Capital Adequacy.
 - To consider and recommend to the Board for approval, through the RMC, 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.
 - 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 propose enhancements to risk management policies, processes, and systems to ensure that the Bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.
- To provide independent oversight function on credit risk management organization, including, but not limited to, the following:
 - Risk management and control functions that are independent from the credit originating and administration functions.
 - 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.
 - Periodic exposure and exception monitoring by way of the review of credit risk management reports.
 - Review of the validation of Internal Rating System and Credit Scoring Models on a regularly basis.
 - 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 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 of Operational Risk
- To undertake other duties/functions that may be assigned.

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 firstly assessed and managed by the design of product or testing programs. 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):

		2017			2016				
	Note	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Enhancements	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Enhancements
Credit Risk Exposure Relating to On-balance Sheet Assets are as Follows									
Loans and receivables									
Due from BSP and other banks		P4,372,019	P -	P4,372,019	P -	P8,208,293	P -	P8,208,293	P -
Interbank loans receivable		4,618,098	-	4,618,098	-	2,157,292	-	2,157,292	-
Loans and discounts	8								
Institutional banking		20,351,764	2,688,242	17,663,522	2,688,242	15,849,682	2,239,849	13,609,833	2,239,849
Retail banking		4,073,590	-	4,073,590	-	3,639,375	-	3,639,375	-
Mortgage banking		1,852,752	1,309,610	543,142	1,309,610	1,984,232	1,963,415	20,817	1,963,415
Small business loans		1,186,294	1,160,855	25,439	1,160,855	1,082,603	1,025,291	57,312	1,025,291
Accrued interest receivable		168,494	-	168,494	-	134,399	-	134,399	-
Other receivables		327,489	-	327,489	-	290,386	-	290,386	-
Unquoted debt securities	8	9,553	-	9,553	-	42,480	-	42,480	-
Other assets*	11	36,225	-	36,225	-	30,592	-	30,592	-
Subtotal		36,996,278	5,158,707	31,837,571	5,158,707	33,419,334	5,228,555	28,190,779	5,228,555
Financial assets at FVPL	7								
Quoted debt securities		340,246	-	340,246	-	418,518	-	418,518	-
Derivative assets		75,884	-	75,884	-	148,575	-	148,575	-
Subtotal		416,130	-	416,130	-	567,093	-	567,093	-
AFS investments	7								
Quoted debt securities		1,057,882	-	1,057,882	-	950,872	-	950,872	-
Unquoted equity securities		12,441	-	12,441	-	12,441	-	12,441	-
Quoted equity securities		498	-	498	-	400	-	400	-
Subtotal		1,070,821	-	1,070,821	-	963,713	-	963,713	-
Held-to-maturity investments	7								
Quoted debt securities		1,110,296	-	1,110,296	-	530,419	-	530,419	-
Subtotal		39,593,525	5,158,707	34,434,818	5,158,707	35,480,559	5,228,555	30,252,004	5,228,555
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	-
Total		P39,593,525	P5,158,707	P34,434,818	P5,158,707	P36,929,542	P5,228,555	P31,700,987	P5,228,555

*Includes returned checks and other cash items and rent deposit

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

	2017	2016
Property	P4,177,822	P4,476,199
Cash	919,866	670,806
Others	61,019	81,550
	P5,158,707	P5,228,555

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, 2017 and 2016.

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):

	2017						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		Total
	Amount	%	Amount	%	Amount	%	
Financial intermediaries*	P3,695,955	13.1	P11,574,923	99.6	P -	-	P15,170,878
Manufacturing	8,468,240	30.8	-	-	-	-	8,468,240
Wholesale and retail	4,337,485	15.8	-	-	-	-	4,337,485
Real estate, renting and business activities	1,263,079	4.6	-	-	-	-	1,263,079
Public administration and defense	43,421	0.2	-	-	-	-	43,421
Construction	891,448	3.2	-	-	-	-	891,448
Transport, storage and communications	1,413,779	5.1	-	-	-	-	1,413,779
Agriculture, hunting and forestry	50,010	0.2	-	-	-	-	50,010
Electricity, gas and water	-	-	-	-	-	-	-
Others**	7,906,519	28.7	48,666	0.4	-	-	7,955,185
Total	27,969,936	101.7	11,623,589	100.0	-	-	39,593,525
Allowance for impairment losses	(462,511)	(1.7)	-	-	-	-	(462,511)
Unearned interest discount and capitalized interest	(5,131)	(0.0)	-	-	-	-	(5,131)
	P27,502,294	100	P11,623,589	100.0	P -	-	P39,125,883

	2016						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		Total
	Amount	%	Amount	%	Amount	%	
Financial intermediaries*	P2,298,959	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	17.5	-	-	-	-	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	32.3	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 impairment 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

*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 at December 31, 2017, the Bank has credit concentration in the manufacturing sector. Management believes this should not be a cause for concern because the main target of the Bank are engaged locally in the manufacturing sector. The Bank has no credit concentration in any industry sector in 2016.

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 impairment losses and unearned interest discount, in thousands).

	2017						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	P3,492,926	P -	P -	P -	P -	P -	P -	P -	P3,492,926
Due from other banks	879,093	-	-	-	-	-	-	-	879,093
Interbank loans receivable	4,618,098	-	-	-	-	-	-	-	4,618,098
Loans and discounts									
Institutional banking	1,449,300	7,386,356	11,253,808	-	-	-	-	262,300	20,351,764
Retail banking	2,889,582	833,021	63,764	-	18,408	-	32,959	235,856	4,073,590
Mortgage banking	1,231,549	528,326	59,083	-	17,102	-	5,419	11,273	1,852,752
Small business loans	1,032,800	147,409	-	-	-	-	6,084	-	1,186,293
Accrued Interest receivable	51,833	22,013	26,431	-	330	67,227	46	614	169,494
Others receivables	-	-	-	-	-	327,489	-	-	327,489
Unquoted debt securities	9,553	-	-	-	-	-	-	-	9,553
Other assets*	-	-	-	-	-	36,225	-	-	36,225
Subtotal	15,654,734	8,917,125	11,403,086	-	35,840	430,941	44,508	510,043	36,996,277
Financial assets at FVPL									
Quoted debt	340,246	-	-	-	-	-	-	-	340,246
Derivative assets	-	75,884	-	-	-	-	-	-	75,884
Subtotal	340,246	75,884	-	-	-	-	-	-	416,130
AFS investments									
Quoted debt	-	1,057,882	-	-	-	-	-	-	1,057,882
Unquoted equity	12,441	-	-	-	-	-	-	-	12,441
Quoted equity	498	-	-	-	-	-	-	-	498
Subtotal	12,939	1,057,882	-	-	-	-	-	-	1,070,821
HTM investments									
Quoted debt	1,110,296	-	-	-	-	-	-	-	1,110,296
Total	P17,118,216	P10,050,891	P11,403,086	P -	P35,840	P430,941	P44,508	P510,043	P39,593,524

*Includes returned checks and other cash items and rent deposit

	2016								Total
	Neither Past Due nor Specifically Impaired						Past Due but not Specifically Impaired		
	Investment Grade	Sub-Investment Grade	High Risk	Watch-list	Default	Unrated	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	62,676	-	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									
Quoted debt	418,518	-	-	-	-	-	-	-	418,518
Derivative assets	-	148,575	-	-	-	-	-	-	148,575
Subtotal	418,518	148,575	-	-	-	-	-	-	567,093
AFS investments									
Quoted debt	-	950,872	-	-	-	-	-	-	950,872
Unquoted equity	12,441	-	-	-	-	-	-	-	12,441
Quoted equity	400	-	-	-	-	-	-	-	400
Subtotal	12,841	950,872	-	-	-	-	-	-	963,713
HTM investments									
Quoted debt	530,419	-	-	-	-	-	-	-	530,419
Total	P17,300,164	P8,091,540	P9,129,246	P -	P22,261	P383,656	P27,537	P526,165	P35,480,659

*Includes returned checks and other cash items and rent deposit

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

	2017			2016		
	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 -	P -	P -	P -
Retail banking	32,959	-	32,959	26,722	-	26,722
Mortgage banking	5,419	-	5,419	415	-	415
Small business loans	6,084	-	6,084	400	-	400
Accrued interest receivable	46	-	46	-	-	-
Total	P44,508	P -	P44,508	P27,537	P -	P27,537

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 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):

	2017	2016
Institutional banking:		
Performing	P18,318	P29,920
Non-performing	91,550	92,500
Personal loans:		
Performing	4,166	2,817
Non-performing	8,706	2,076
Mortgage banking:		
Performing	5,397	6,840
	P128,137	P134,153

Restructured performing and non-performing loans (NPLs) of the Bank, net of specific impairment allowances as determined by PAS 39, as of December 31, 2017 and 2016 amounted to P42.8 million and P36.5 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:

	2017	2016
Secured	P52,146,082	P8,720,595
Unsecured	359,170,190	452,066,096
	P411,316,272	P460,786,691

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 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:

	2017		2016	
	Amount	%	Amount	%
Secured by:				
Real estate	P4,557,479,034	16.3	P4,334,212,169	18.8
Hold-out on deposits	1,229,757,985	4.4	1,186,018,987	5.2
Mortgage trust indenture	727,512,896	2.6	464,073,703	2.0
Chattel	191,916,079	0.7	171,587,435	0.8
Government guarantee	53,048,688	0.2	70,698,054	0.3
Government bonds	18,898,579	0.1	99,187,869	0.4
Stand by letter of credit (LC)	13,237,514	0	51,338,706	0.2
	6,791,850,775	24.3	6,377,116,923	27.7
Unsecured	21,178,085,113	75.7	16,646,040,062	72.3
	P27,969,935,888	100.0	P23,023,156,985	100.0

For past due and impaired loans and discounts, the fair values of real estate collaterals held amounted to P29.8 million and P8.7 million as of December 31, 2017 and 2016, respectively. There were no other types of collaterals held during 2017 and 2016.

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, 2017 and 2016, 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):

	2017					Total
	On Demand	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than One Year	
Deposit liabilities:						
Demand	P7,312	P -	P -	P -	P -	P7,312
Savings	5,807	-	-	-	-	5,807
Time	5,610	4,230	2,106	608	1,029	13,583
Bills and acceptances payable	4,109	440	-	-	-	4,549
Manager's checks	35	-	-	-	-	35
Accrued interest and other expenses*	381	-	-	-	-	381
Other liabilities**	1,143	-	-	-	-	1,143
	24,397	4,670	2,106	608	1,029	32,810
Future interest payments	6	5	21	22	-	54
	24,403	4,675	2,127	630	1,029	32,864
Financial liabilities at FVPL:						
Forward contract payable	12,422	-	-	-	-	12,422
Forward contract receivable	(11,955)	-	-	-	-	(11,955)
	467	-	-	-	-	467
	P24,870	P4,675	P2,127	P630	P1,029	P33,331

*Excludes accrued taxes and other non-financial accruals.

**Excludes withholding taxes payable and miscellaneous liabilities.

	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.

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).

	2017					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 -	P -	P -
Contingent liabilities	310,000	502,470	553,130	1,367,514	-	2,733,114
Others	3,555	-	-	-	-	3,555
Total	P313,555	P502,470	P553,130	P1,367,514	P -	P2,736,669

	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

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 derivative liabilities and interbank borrowings. The ratios for the year 2017 and 2016 were as follows:

	2017	2016
December 31	24.6%	45.6%
Average during the year	32.6%	38.9%
Highest	39.7%	45.6%
Lowest	24.6%	28.3%

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

	2017								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	P452,374	P -	P -	P -	P -	P -	P -	P -	P452,374
Due from BSP	3,492,926	-	-	-	-	-	-	-	3,492,926
Due from other banks	879,093	-	-	-	-	-	-	-	879,093
Interbank loans receivable	4,618,098	-	-	-	-	-	-	-	4,618,098
Loans and discounts - gross	5,330,778	5,214,175	3,828,031	1,959,691	2,669,257	4,029,356	368,539	4,670,109	27,969,936
Other assets*	1,632	408	1,440	1,250	2,900	17,367	7,939	3,269	36,225
Subtotal	14,774,901	5,214,583	3,829,471	1,960,941	2,672,157	4,046,723	376,478	4,573,398	37,448,652
Financial assets at FVPL	75,884	-	-	-	2,735	7,891	146,688	162,934	416,130
AFS investments	-	-	-	-	-	-	-	1,070,821	1,070,821
HTM investments	1,002	-	34,882	19,564	-	100,000	-	854,748	1,110,296
Total financial assets	14,851,787	5,214,583	3,864,353	1,980,505	2,674,892	4,154,614	523,164	6,781,901	40,045,899
Liabilities									
Financial liabilities at FVPL									
derivative liabilities	63,147	-	-	-	-	-	-	-	63,147
Other financial liabilities at amortized cost									
Deposit liabilities	18,728,772	4,229,690	2,105,853	608,133	700,399	329,054	-	-	26,701,901
Bills payable	3,844,616	440,213	-	-	-	-	-	-	4,284,829
Outstanding acceptances	264,438	-	-	-	-	-	-	-	264,438
Manager's checks	35,242	-	-	-	-	-	-	-	35,242
Accrued interest and other expenses**	380,974	-	-	-	-	-	-	-	380,974
Other liabilities***	1,143,459	-	-	-	-	-	-	-	1,143,459
Total financial liabilities	24,460,642	4,669,903	2,105,853	608,133	700,399	329,054	-	-	32,873,984
Asset-liability gap	(P9,608,855)	P544,680	P1,758,500	P1,372,472	P1,974,493	P3,825,560	P523,164	P6,781,901	P7,171,915

*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								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	P428,086	P -	P -	P -	P -	P -	P -	P -	P428,086
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	-	8,054	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	2,895,804	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	4,181,166	1,487,384	595,325	79,575	-	-	-	28,967,086
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	22,538,514	4,181,166	1,487,384	595,325	79,575	-	-	-	28,879,954
Asset-liability gap	(P7,635,660)	(P1,285,352)	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

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):

	2017		
	Foreign Exchange	Fixed Income	Total VaR
December 31	P2.4	P4.7	P6.0
Average daily	4.0	8.9	9.9
Highest	9.8	26	27.1
Lowest	0.4	0.2	1.2

	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

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, 2017 and 2016.

HFT Summary	2017	2016
USD (PVBP) PHP	(P66,248)	(P89,425)
PHP (PVBP) PHP	(123,838)	53,584

Foreign Exchange Risk

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2017 and 2016. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (in thousands):

	2017			2016		
	USD	Others	Total	USD	Others	Total
Assets						
Loans and receivables:						
Cash and other cash items	P58,962	P17,838	P76,800	P49,422	P18,011	P67,433
Due from BSP and other banks	637,347	174,162	811,509	1,958,392	146,533	2,104,925
Interbank loan receivable	4,358,630	-	4,358,630	480,828	-	480,828
Loans and discounts - net	8,605,030	385,930	8,990,960	4,496,472	374,643	4,871,115
Financial assets at FVPL	146,878	-	146,878	148,575	-	148,575
AFS investments	1,057,882	-	1,057,882	950,873	-	950,873
HTM investments	954,749	-	954,749	475,954	-	475,954
	15,819,478	577,930	16,397,408	8,560,516	539,187	9,099,703
Liabilities						
Other financial liabilities at amortized cost:						
Deposit liabilities	11,279,963	53,249	11,333,212	7,799,191	116,778	7,915,969
Financial liabilities at FVPL	63,147	-	63,147	32,593	-	32,593
Bills payable	3,894,540	390,283	4,284,823	-	-	-
Outstanding acceptances	264,438	-	264,438	10,584	-	10,584
Accrued interest and other expenses	36,227	1,356	37,583	11,435	-	11,435
Other liabilities	68,399	-	68,399	262,672	-	262,672
	15,606,714	444,888	16,051,602	8,116,475	116,778	8,233,253
Net Exposure	P212,764	P133,042	P345,806	P444,041	P422,409	P866,450

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 P0.7 billion (sold) and P0.6 billion (bought) as of December 31, 2017 and P0.4 billion (sold) and P0.2 billion (bought) as of December 31, 2016.

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 economic value of equity to possible changes in interest rates as of December 31, 2017 and 2016. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

2017										
Sensitivity of Equity										
Currency	Increase in bps	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
(In Thousand Pesos)										
PHP	15	(P571)	(P568)	P5,516	(P1,450)	(P5,885)	(P930)	P -	P -	(P3,888)
(in 000s)	20	(761)	(757)	7,352	(1,932)	(7,842)	(1,238)	-	-	(5,178)
	25	(951)	(946)	9,187	(2,414)	(9,795)	(1,546)	-	-	(6,465)
USD	15	(587)	439	3,542	216	2	-	(2,606)	(17,155)	(16,150)
(in 000s)	20	(783)	585	4,721	287	3	-	(3,468)	(22,793)	(21,448)
	25	(979)	731	5,900	359	4	-	(4,326)	(28,392)	(26,703)

2017										
Sensitivity of Equity										
Currency	Decrease in bps	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
(In Thousand Pesos)										
PHP	-15	P572	P569	(P5,528)	P1,454	P5,911	P936	P -	P -	P3,914
(in 000s)	-20	763	759	(7,374)	1,939	7,887	1,250	-	-	5,224
	-25	954	949	(9,221)	2,425	9,866	1,564	-	-	6,537
USD	-15	588	(440)	(3,550)	(216)	(2)	-	2,637	17,523	16,540
(in 000s)	-20	785	(586)	(4,735)	(288)	(3)	-	3,523	23,447	22,143
	-25	981	(733)	(5,921)	(360)	(4)	-	4,412	29,414	27,789

2016										
Sensitivity of Equity										
Currency	Increase in bps	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
(In Thousand Pesos)										
PHP	15	(P816)	(P172)	P5,623	(P2,148)	(P4,733)	(P362)	P -	P -	(P2,608)
(in 000s)	20	(1,087)	(229)	7,494	(2,862)	(6,308)	(481)	-	-	(3,471)
	25	(1,359)	(286)	9,365	(3,576)	(7,877)	(601)	-	-	(4,334)
USD	15	(197)	(111)	2,687	455	57	(543)	(1,752)	(10,751)	(10,155)
(in 000s)	20	(262)	(148)	3,581	606	76	(724)	(2,332)	(14,286)	(13,489)
	25	(328)	(185)	4,475	757	95	(903)	(2,909)	(17,798)	(16,794)

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

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

	2017					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	P452,374	P -	P -	P -	P -	P452,374
Due from BSP	3,492,926	-	-	-	-	3,492,926
Due from other banks	879,093	-	-	-	-	879,093
Interbank loans receivable	4,618,098	-	-	-	-	4,618,098
Loans and discounts - gross	16,122,764	8,485,086	2,016,309	934,158	411,619	27,969,936
Other assets*	1,632	408	1,440	1,250	31,495	36,225
Financial assets at FVPL:						
Quoted debt	-	-	-	-	340,246	340,246
Derivative assets	75,884	-	-	-	-	75,884
AFS investments	-	-	-	-	1,070,821	1,070,821
HTM investments	1,002	-	34,882	19,663	1,054,749	1,110,296
Total financial assets	26,643,773	8,485,494	2,052,631	955,071	2,808,930	40,045,899
Financial Liabilities						
Financial liabilities at						
FVPL - derivative liabilities	63,147	-	-	-	-	63,147
Other financial liabilities at						
amortized cost:						
Deposit liabilities:						
Demand	7,312,403	-	-	-	-	7,312,403
Savings	5,806,853	-	-	-	-	5,806,853
Time	5,609,516	4,229,690	2,105,853	608,133	1,029,453	13,582,645
Bills payable and	-	-	-	-	-	-
outstanding acceptances	4,109,048	440,213	-	-	-	4,549,261
Manager's checks	35,242	-	-	-	-	35,242
Accrued interest and other	-	-	-	-	-	-
expenses**	380,974	-	-	-	-	380,974
Other liabilities***	1,143,459	-	-	-	-	1,143,459
Total financial liabilities	24,460,642	4,669,903	2,105,853	608,133	1,029,453	32,873,984
Repricing Gap	P1,183,131	P3,815,591	(P53,222)	P346,938	P1,879,477	P7,171,915
Cumulative Repricing Gap	P1,183,131	P4,998,722	P4,945,500	P5,292,438	P7,171,915	P -

*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					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	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	3,955,840	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:						
Quoted 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 -

*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

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	
	2017	2016	2017	2016
PHP Interest Rates				
Increase by 15 bps	(P3,854,972)	(P1,755,354)	P -	P -
Increase by 20 bps	(5,124,258)	(2,337,601)	-	-
Increase by 25 bps	(6,385,784)	(2,918,421)	-	-
Decrease by 15 bps	3,926,845	1,768,377	-	-
Decrease by 20 bps	5,252,037	2,360,754	-	-
Decrease by 25 bps	6,585,448	2,954,598	-	-
USD Interest Rates				
Increase by 15 bps	(1,858)	(71,058)	(27,928,416)	(21,557,892)
Increase by 20 bps	(2,423)	(3,138)	(37,053,222)	(28,609,522)
Increase by 25 bps	(2,962)	(3,923)	(46,087,420)	(35,595,202)
Decrease by 15 bps	2,105	(2,354)	28,781,658	22,178,098
Decrease by 20 bps	2,863	(3,138)	38,570,219	29,712,195
Decrease by 25 bps	3,649	(3,923)	48,457,969	37,318,297

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:

	2017		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated			
Financial Assets			
Due from BSP	0.6%	-	-
Due from other banks	0.2%	-	-
Interbank loans receivable	2.8%	-	-
Loans and receivables	5.0%	6.4%	10.6%
Financial assets at FVPL	0.2%	0.2%	4.3%
AFS investments	-	-	4.0%
HTM investments	1.3%	3.4%	3.6%
Financial Liabilities			
Deposit liabilities	0.6%	1.1%	1.2%
Bills payable	1.6%	-	-
Foreign Currency-denominated			
Financial Assets			
Due from other banks	0.5%	-	-
Interbank loans receivable	1.1%	-	-
Loans and receivables	2.7%	3.7%	1.0%
Financial assets at FVPL	-	-	2.9%
AFS investments	5.6%	5.6%	3.2%
HTM investments	-	-	3.9%
Financial Liabilities			
Deposit liabilities	0.4%	1.7%	1.4%
Bills payable	1.8%	-	-

	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%

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 Group 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, 2017 and 2016 (in millions except for percentages).

	2017	2016
Tier 1 capital	P6,795	P6,661
Tier 2 capital	321	266
Gross qualifying capital	7,116	6,927
Less: Required deductions	-	-
Total Qualifying Capital	P7,116	P6,927
Risk-weighted Assets	P36,674	P30,718
Tier 1 capital ratio	18.5%	21.7%
Tier 2 capital ratio	0.9%	0.9%
Risk-based capital adequacy ratio	19.4%	22.6%

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 comprises 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
- 100% 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 and Interbank Loans Receivable

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

Quoted Debt and Equity Securities

Fair values are based on quoted prices published in markets.

Unquoted Equity Securities

No fair value disclosures are provided for unquoted equity investments amounting to P12.4 million in 2017 and 2016 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 interests in BancNet, Philippine Clearing House Corporation and Bankers Association of the Philippines. 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.

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Loans and receivables:				
Cash and other cash items	P452,374,266	P452,374,266	P428,066,149	P428,066,149
Due from BSP	3,492,925,784	3,492,925,784	6,078,965,189	6,078,965,189
Due from other banks	879,092,880	879,092,880	2,129,327,639	2,129,327,639
Interbank loans receivable	4,618,098,194	4,618,098,194	2,157,292,749	2,157,292,749
Loans and discounts - net:				
Institutional banking	20,192,492,370	20,192,492,370	15,641,527,582	15,641,527,582
Retail banking	3,832,272,110	3,685,392,099	3,394,184,070	3,151,392,778
Mortgage banking	1,847,968,804	1,694,487,194	1,976,543,106	1,816,349,337
Small business loans	1,186,133,205	1,186,133,205	1,082,602,589	1,082,602,589
Accrued interest receivable	159,306,776	159,306,776	125,052,205	125,052,205
Other receivables	274,618,593	274,618,593	233,355,991	233,355,991
Unquoted debt securities	9,501,705	9,501,705	42,139,298	42,139,298
Other assets*	36,225,264	36,225,264	30,592,371	30,592,371
Subtotal	36,981,009,951	36,680,648,330	33,319,648,938	32,916,663,877
Financial assets at FVPL:				
Held-for-trading:				
Quoted debt	340,245,505	340,245,505	418,517,681	418,517,681
Derivative assets	75,884,166	75,884,166	148,575,404	148,575,404
Subtotal	416,129,671	416,129,671	567,093,085	567,093,085
AFS investments:				
Quoted debt	1,057,882,388	1,057,882,388	950,872,626	950,872,626
Unquoted equity	12,440,817	12,440,817	12,440,817	12,440,817
Quoted equity	498,000	498,000	400,000	400,000
Subtotal	1,070,821,205	1,070,821,205	963,713,443	963,713,443
HTM investments:				
Quoted debt	1,110,295,691	1,139,671,875	530,419,396	541,390,635
	39,578,256,518	39,307,271,081	35,380,874,862	34,988,861,040
Financial Liabilities				
Financial liabilities at FVPL:				
Derivative liabilities	63,147,488	63,147,488	32,592,767	32,592,767
Other financial liabilities at amortized cost :				
Deposit liabilities:				
Demand	7,312,403,130	7,312,403,130	7,721,529,036	7,721,529,036
Savings	5,806,852,492	5,806,852,492	5,841,157,648	5,841,157,648
Time	13,582,645,361	13,582,645,361	13,404,399,536	13,404,399,536
Subtotal	26,765,048,471	26,765,048,471	26,999,678,987	26,999,678,987
Bills payable	4,284,822,838	4,284,822,838	-	-
Outstanding acceptances	264,437,832	264,437,832	10,584,111	10,584,111
Manager's checks	35,241,990	35,241,990	52,176,964	52,176,964
Accrued interest and other expenses**	380,974,185	380,974,185	347,174,861	347,174,861
Other liabilities***	1,143,459,312	1,143,459,312	1,470,338,926	1,470,338,926
	P32,873,984,628	P32,873,984,628	P28,879,953,849	P28,879,953,849

*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

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

	2017			
	USD		PHP	
	High	Low	High	Low
Unquoted debt securities	-	-	-	-
Loans and discounts:				
Retail banking	-	-	16.17%	2.03%
Mortgage banking	-	-	7.60%	4.99%
Small business loans	-	-	-	-
Deposit liabilities - time	-	-	-	-

	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	-	-	-	-

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.

	2017			
	Level 1	Level 2	Level 3	Total
Financial Assets at FVPL				
Quoted debt	P340,246	P -	P -	P340,246
Derivative assets	-	75,884	-	75,884
AFS Investments				
Quoted debt	1,057,882	-	-	1,057,882
Clubshares	-	498	-	498
	P1,398,128	P76,382	P -	P1,474,510
Financial Liabilities at FVPL				
Derivative liabilities	P -	P63,147	P -	P63,147

	2016			Total
	Level 1	Level 2	Level 3	
Financial Assets at FVPL				
Quoted debt	P418,518	P -	P -	P418,518
Derivative assets	-	148,575	-	148,575
AFS Investments				
Quoted 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

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 2017 and 2016, 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

The effective interest rates of the Bank's debt securities range from 1.0% to 6.7% in 2017 and 2016.

Financial Assets at FVPL

Financial assets at FVPL consist of the following:

	Note	2017	2016
Held-for-Trading			
Government debt securities		P281,069,268	P375,021,209
Derivative assets	27	75,884,166	148,575,404
Private debt securities		59,176,237	43,496,472
		P416,129,671	P567,093,085

Net unrealized gain (loss) in 2017 and 2016 on revaluation to market of financial assets at FVPL amounting to (P2.3 million) and P0.1 million, respectively, are included under "Trading and securities gain - net" in the statements of income.

AFS Investments

AFS investments consist of the following:

	2017	2016
AFS Investments		
Government debt securities	P1,057,882,388	P844,891,960
Unquoted equity securities	12,440,817	12,440,817
Quoted equity securities	498,000	400,000
Private debt securities	-	105,980,666
	P1,070,821,205	P963,713,443

Quoted equity securities include 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:

	2017	2016
Balance at beginning of year	(P28,926,484)	(P23,814,176)
Unrealized losses recognized in other comprehensive income	(7,655,238)	(46,279,682)
Amount realized in the statements of income	21,075,563	41,167,374
Balance at end of year	(P15,506,159)	(P28,926,484)

In 2017, effective interest rates range from 2.5% to 3.9% (2016: 2.4% to 4.2%) for foreign currency-denominated AFS investments. As at December 31, 2017, there were no outstanding peso-denominated AFS investments (2016: 2.4% to 4.2%).

HTM Investments

HTM investments consist of Philippine government treasury notes that bear nominal annual interest rates ranging from 2.1% to 10.6% and from 3.7% to 10.6% in 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the carrying value of HTM investments amounted to P1.1 billion and P530.4 million, respectively.

Interest income on trading and investment securities consists of:

	2017	2016
HTM investments	P32,091,577	11,789,597
AFS investments	31,155,453	18,294,166
Financial assets at FVPL	29,834,951	19,021,825
	P93,081,981	P49,105,588

Trading and securities gain - net consists of:

	2017	2016
AFS investments	P21,075,563	P41,167,374
Financial assets at FVPL	(9,657,180)	151,701,798
	P11,418,383	P192,869,172

Net gain on derivative transactions amounting to P83.0 million and P15.8 million in 2017 and 2016, respectively, are included under "Foreign exchange gain - net" in the statements of income.

8. Loans and Receivables - net

This account consists of:

	<i>Note</i>	2017	2016
Loans and discounts:			
Institutional banking		P20,351,764,139	P15,849,682,219
Retail banking		4,073,590,111	3,639,375,551
Mortgage banking		1,852,752,342	1,984,231,674
Small business loans		1,186,293,180	1,082,602,589
Accrued interest receivable		168,494,339	134,399,039
Other receivables		327,489,277	290,386,038
		27,960,383,388	22,980,677,110
Unquoted debt securities		9,552,500	42,479,875
		27,969,935,888	23,023,156,985
Unearned interest discount and capitalized interest		(5,131,503)	(4,637,913)
		27,964,804,385	23,018,519,072
Allowance for impairment losses	12	(462,510,822)	(523,114,231)
		P27,502,293,563	P22,495,404,841

Institutional loans and Small Business loans include domestic bills purchased amounting to P242.0 million and P470.5 million as of December 31, 2017 and 2016, 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 P177.8 million and P189.0 million as of December 31, 2017 and 2016, respectively, which are secured by real properties transferred to ICCS and PVB.

Other receivables also include sales contract receivables amounting to P19.1 million and P21.0 million as of December 31, 2017 and 2016, respectively, which bear fixed interest rates per annum ranging from 8.0% to 12.0% in 2017 and 2016.

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. The Bank's unquoted debt securities as at December 31, 2017 and 2016 is immaterial.

Interest income on loans and receivables consists of:

	2017	2016
Retail banking	P967,821,210	P893,875,173
Institutional banking	737,300,700	613,124,252
Mortgage banking	159,793,467	153,999,150
Small business loans	4,738,353	4,733,756
Unquoted debt securities	699,484	3,420,817
Other receivables	2,876,633	2,883,775
	P1,873,229,847	P1,672,036,923

The effective interest rates of loans and discounts, unquoted debt securities and sales contract receivables range from 2.7% to 2.9% in 2017 and from 2.7% to 3.6% in 2016 for foreign currency-denominated receivables and from 8.1% to 9.6% in 2017 and from 8.7% to 10.1% in 2016 for peso-denominated receivables.

The Bank's loan portfolio includes non-risk loans, as defined under BSP regulations, totaling P1.2 billion as at December 31, 2017 and 2016.

As of December 31, 2017, 15.8% of the total loans of the Bank are subject to periodic interest repricing (2016: 16.8%). Remaining loans earn annual fixed interest rates ranging from 1.0% to 37.5% in 2017 and from 1.0% to 38.9% in 2016 for peso-denominated loans and from 1.8% to 5.8% in 2017 and from 1.9% to 5.8% in 2016 for foreign currency-denominated loans.

There is no interest income accrued on loans and receivables which includes unwinding of the allowance for impairment losses as of December 31, 2017 and 2016.

9. Property and Equipment - net

The composition and movements of this account are as follows:

	2017					Total
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost						
Balance at beginning of year	P74,604,255	P216,965,439	P106,015,549	P88,035,424	P348,381,416	P834,002,083
Additions	5,625,000	26,180,580	20,391,843	4,456,388	18,904,711	75,558,522
Disposals	-	(38,356,571)	(24,082,091)	(12,143,181)	(5,473,116)	(80,054,959)
Balance at end of year	80,229,255	204,789,448	102,325,301	80,348,631	361,813,011	829,505,646
Accumulated Depreciation and Amortization						
Balance at beginning of year	41,869,169	175,136,183	49,837,005	82,191,272	340,750,507	689,784,136
Depreciation and amortization	3,709,062	23,103,415	18,735,542	2,180,787	8,383,671	56,112,477
Disposals	-	(38,356,186)	(15,393,730)	(12,142,994)	(5,473,078)	(71,365,988)
Balance at end of year	45,578,231	159,883,412	53,178,817	72,229,065	343,661,100	674,530,625
Net Book Value at End of Year	P34,651,024	P44,906,036	P49,146,484	P8,119,566	P18,151,911	P154,975,021
	2016					Total
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
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

10. Investment Properties - net

The Bank's investment properties consist of house and lot and condominium units. Movements in this account in 2017 and 2016 follow:

	2017	2016
Cost		
Balance at beginning of year	P96,701,846	P18,937,641
Additions	43,074,950	66,068,148
Transfers	-	13,463,200
Disposals	(23,344,100)	(1,767,143)
Balance at end of year	116,432,696	96,701,846
Accumulated Depreciation		
Balance at beginning of year	2,947,443	1,262,263
Depreciation	2,710,593	1,723,495
Transfers	-	77,246
Disposals	(743,589)	(115,561)
Balance at end of year	4,914,447	2,947,443
Allowance for Impairment Losses		
Balance at beginning of year	25,720	105,184
Impairment losses (reversal of impairment losses)	1,716,291	(79,464)
Balance at end of year	1,742,011	25,720
Net Book Value at End of Year	P109,776,238	P93,728,683

The Bank does not occupy repossessed properties for business use.

The aggregate fair value of the investment properties of the Bank amounted to P113.8 million and P96.2 million as of December 31, 2017 and 2016, 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	2017	2016
Computer software costs - net		P46,806,899	P66,103,449
Rental deposit		34,897,612	30,486,553
Prepaid expenses and other charges		24,480,861	48,356,540
Returned checks and other cash items		1,327,652	105,818
Net pension asset	19	-	36,682,763
Miscellaneous		275,358,390	187,605,721
		P382,871,414	P369,340,844

Miscellaneous assets include hardware and software items under installation process, documentary stamps on hand, and stationery and office supplies. As of December 31, 2017 and 2016, hardware and software items under installation process amounted to P255.3 million and P159.0 million, respectively.

The movements in computer software costs follow:

	2017	2016
Cost		
Balance at beginning of year	P454,175,602	P448,468,757
Additions	14,754,659	6,173,645
Disposals	(87,577,907)	(466,800)
Balance at end of year	381,352,354	454,175,602
Accumulated Amortization		
Balance at beginning of year	388,072,153	351,885,110
Amortization	33,384,896	36,243,178
Disposals	(86,911,594)	(56,135)
Balance at end of year	334,545,455	388,072,153
	P46,806,899	P66,103,449

12. Allowance for Impairment Losses

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

	2017					Total
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	
Balance at beginning of year	P203,901,282	P7,644,587	P -	P245,191,481	P66,376,881	P523,114,231
Impairment losses (reversals)	65,245,793	(2,862,770)	159,975	124,101,440	13,769,778	200,414,216
Accounts charged off and others	(114,954,293)	-	-	(127,974,920)	(18,088,412)	(261,017,625)
Balance at end of year	P154,192,782	P4,781,817	P159,975	P241,318,001	P62,058,247	P462,510,822

	2016					Total
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	
Balance at beginning of year	P98,797,688	P32,090,880	P -	P268,263,603	P65,855,336	P465,007,507
Impairment losses (reversals)	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

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 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 impairment losses is as follows:

	2017		Total
	Specific Impairment	Collective Impairment	
Loan and discounts	P51,349,989	P135,294,449	P186,644,438
Other receivables	11,498,375	2,271,403	13,769,778
Total	P62,848,364	P137,565,852	P200,414,216

	2016		Total
	Specific Impairment	Collective Impairment	
Loan and discounts	P80,600,500	P140,852,544	P221,453,044
Other receivables	10,128,690	2,444,047	12,572,737
Total	P90,729,190	P143,296,591	P234,025,781

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 impairment losses, provided that interest on said loans shall not be accrued, from NPL classification. Accordingly, NPLs not fully covered by allowance for impairment losses are as follows:

	2017	2016
NPLs	P411,316,272	P460,786,691
Less NPLs fully provided with allowance for impairment losses	182,325,217	290,378,738
	P228,991,055	P170,407,953

13. Deposit Liabilities

As of December 31, 2017, there are no deposit liabilities of the Bank that are subject to periodic interest repricing, while 2.1% (2016: 2.4%), of the total deposits are noninterest-bearing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.1% to 1.3% in 2017 and 2016.

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 2017 and 2016, the Bank is in compliance with such reserve requirements regulations.

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

	2017	2016
Due from BSP	P3,445,013,191	P4,179,298,231
	P3,445,013,191	P4,179,298,231

Interest expense on deposit liabilities consists of:

	2017	2016
Time	P181,107,053	P119,305,222
Demand	17,637,757	14,904,403
Savings	16,135,656	14,555,868
	P214,880,466	P148,765,493

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 1.2% to 3.5% in 2017 and from 1.0% to 3.8% in 2016.

Interest expense on bills payable amounted to P23.4 million and P7.9 million in 2017 and 2016, respectively.

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	<i>Note</i>	2017	2016
Accrued taxes and other expenses		P348,876,601	P340,008,008
Accrued interest payable		46,650,924	19,695,752
Net retirement liability	19	32,234,224	-
		P427,761,749	P359,703,760

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:

	<i>Note</i>	2017	2016
Accounts payable		P899,677,405	P996,433,324
Bills purchased - contra	8	241,975,300	470,464,650
Withholding taxes payable		29,550,981	27,882,907
Payment order payable		1,806,607	3,440,952
Miscellaneous		17,163,814	14,233,891
		P1,190,174,107	P1,512,455,724

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 table presents the maturity profile of the assets and liabilities of the Bank based on the amounts to be recovered or settled with and/or after more than 12 months after the reporting period (in thousands):

	2017			2016		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Loans and receivables						
Cash and other cash items	P452,374	P -	P452,374	P428,066	P -	P428,066
Due from BSP	3,492,926	-	3,492,926	6,078,965	-	6,078,965
Due from other banks	879,093	-	879,093	2,129,328	-	2,129,328
Interbank loans receivable	4,618,098	-	4,618,098	2,157,292	-	2,157,292
Loans and receivables - gross	16,332,675	11,637,261	27,969,936	12,942,395	10,080,762	23,023,157
Other assets*	4,730	31,495	36,225	6,648	23,944	30,592
Subtotal	25,779,896	11,668,756	37,448,652	23,742,694	10,104,706	33,847,400
Financial assets at FVPL	75,884	340,246	416,130	523,187	43,906	567,093
AFS investments	-	1,070,821	1,070,821	50,958	912,755	963,713
HTM investments	55,548	1,054,748	1,110,296	18,842	511,577	530,419
	25,911,328	14,134,571	40,045,899	24,335,681	11,572,944	35,908,625
Non-financial Assets						
Property and equipment	-	154,975	154,975	-	144,218	144,218
Investment properties - net	-	109,776	109,776	-	93,729	93,729
Deferred tax assets - net	-	136,619	136,619	-	106,184	106,184
Other assets	31,922	314,724	346,646	60,460	278,289	338,749
	31,922	716,094	748,016	60,460	622,420	682,880
	25,904,755	14,889,160	40,793,915	24,396,140	12,195,365	36,591,505
Less: Allowance for impairment losses	-	-	(462,511)	-	-	(523,114)
Unearned discount and capitalized interest	-	-	(6,131)	-	-	(4,638)
	P25,904,755	P14,889,160	P40,326,273	P24,396,140	P12,195,365	P36,063,753

*Includes returned checks and other cash items and rent deposit

	2017			2016		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	P63,147	P -	P63,147	P32,593	P -	P32,593
Other financial liabilities at amortized cost						
Deposit liabilities	25,672,448	1,029,453	26,701,901	26,887,511	79,575	26,967,086
Bills payable	4,284,823	-	4,284,823	-	-	-
Outstanding acceptances	264,438	-	264,438	10,584	-	10,584
Manager's checks	35,242	-	35,242	52,177	-	52,177
Accrued interest and other expenses**	380,974	-	380,974	347,175	-	347,175
Other liabilities***	1,143,459	-	1,143,459	1,470,339	-	1,470,339
	31,844,531	1,029,453	32,873,984	28,800,379	79,575	28,879,954
Non-financial Liabilities						
Accrued taxes	46,788	-	46,788	12,529	-	12,529
Income tax payable	18,596	-	18,596	-	-	-
Other liabilities	46,715	-	46,715	42,117	-	42,117
	112,099	-	112,099	54,646	-	54,646
	P31,956,630	P1,029,453	P32,986,083	P28,855,025	P79,575	P28,934,600

**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 as of December 31, 2017 and 2016.

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, 2017 and 2016, 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, 2017 and 2016, the Bank's total unimpaired capital amounts to P6.8 billion and P6.7 billion, respectively.

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, 2017 and 2016, retained earnings appropriated for the following purposes are as follows (amounts in thousands):

	2017	2016
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, 2017.

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:

	2017	2016
Components of Retirement Benefit Liability Recorded in the Statements of Income		
Current service cost	P22,911,929	P23,901,324
Net interest expense (income):		
Interest expense	8,788,367	7,153,554
Interest income	(10,842,602)	(8,358,444)
	20,857,694	22,696,434
Components of Retirement Benefit Liability Recorded in OCI		
Remeasurement loss (gain) on defined benefits obligation	55,518,237	(11,411,237)
Remeasurement loss (gain) on plan assets	13,398,750	(169,656)
	68,916,987	(11,580,893)
Total	P89,774,681	P11,115,541

The net pension liability (asset), included under "Accrued Interest, Taxes and Other Expenses (Other Assets)" account, recognized in the statements of financial position follows:

	2017	2016
Present value of defined benefits obligation	P214,390,229	P156,935,125
Fair value of plan assets	(182,156,005)	(193,617,888)
Net pension liability (asset)	P32,234,224	(P36,682,763)

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

	2017	2016
Balance at beginning of year	P156,935,125	P149,032,372
Current service cost	22,911,929	23,901,324
Interest expense	8,788,367	7,153,554
Benefits paid	(29,763,429)	(11,740,888)
Remeasurement losses (gains) on obligation arising from:		
Change in financial assumptions	11,545,109	(16,139,785)
Experience adjustment	43,973,128	4,728,548
Balance at end of year	P214,390,229	P156,935,125

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

	2017	2016
Balance at beginning of year	P193,617,888	P174,134,242
Interest income	10,842,602	8,358,444
Contribution to plan assets	20,857,694	22,696,434
Benefits paid	(29,763,429)	(11,740,888)
Remeasurement (loss) gain on plan assets	(13,398,750)	169,656
Balance at end of year	P182,156,005	P193,617,888

The actual (loss) return on plan assets amounted to (P2.6 million) and P8.5 million in 2017 and 2016, respectively.

The Bank expects to contribute P30.0 million to its defined benefits retirement plan in 2018 (2016: P20.9 million in 2017).

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

	2017	2016
Current service cost	P22,911,929	P23,901,324
Less: Net interest income	2,054,235	1,204,890
	P20,857,694	P22,696,434

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

	2017	2016
Debt securities	P107,720	P109,081
Due from banks	38,260	22,482
Equity investments	21,755	33,526
Loans	13,616	13,019
Accrued interest receivables	1,028	1,632
Dividends receivable	109	250
	P182,488	P179,990

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

	In Percentages	
	2017	2016
Discount rate	5.1%	5.6%
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, 2017, the weighted average duration of defined benefit obligation is 14 years (2016: 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:

	2017			
	Discount Rate		Salary Increase Rate	
	+0.5%	-0.5%	+0.5%	-0.5%
Defined benefit obligation	(P11,545,109)	P12,605,849	P12,061,107	(P11,155,405)
Retirement liability	(11,545,109)	12,605,849	12,061,107	(11,155,405)

	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)

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, 2017 and 2016 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Bank has no impairment losses relating to the receivables from retirement plan in 2017 and 2016.

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 P128.6 million and P113.5 million in 2017 and 2016, respectively.

Future minimum lease rentals payable under non-cancelable operating leases follow:

	2017	2016
Within one year	P99,411,456	P85,013,868
After one year but not more than five years	175,765,917	215,193,968
	P275,177,373	P300,207,836

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 P176.3 million and P158.1 million in 2017 and 2016, 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 P1.3 million and P1.7 million (included under "Miscellaneous expenses" account in the statements of income) in 2017 and 2016, 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.

Income taxes consist of:

	2017	2016
RCIT	P111,615,784	P66,233,603
Final	29,308,453	45,374,021
MCIT	327,030	-
	141,251,267	111,607,624
Deferred	(30,434,593)	9,444,668
	P110,816,674	P121,052,292

The components of deferred tax assets and liabilities are as follows:

	2017	2016
Deferred tax assets:		
Allowance for impairment losses	P131,565,310	P145,999,034
Net pension liability	9,670,267	-
Unamortized past service costs	6,725,696	7,965,474
Accumulated depreciation of investment properties	3,627,466	2,931,534
	151,588,739	156,896,042
Deferred tax liabilities:		
Unrealized gain on non-financial asset	11,025,339	32,395,120
Unrealized mark-to-market gain on derivatives	3,944,876	7,312,162
Net pension asset	-	11,004,829
	14,970,215	50,712,111
	P136,618,524	P106,183,931

The reconciliation between the statutory income tax and income taxes follows:

	2017	2016
Statutory income tax rate	30.0%	30.0%
Tax effects of:		
Nondeductible operating expense	2.3	9.2
Nondeductible interest expense	2.0	1.6
Tax-paid and tax-exempt income	0.2	(4.1)
FCDU income	(1.3)	16.3
Others	(5.5)	3.0
Effective income tax rate	27.7%	55.9%

22. Income and Expenses

Service fees and commission income consist of:

	2017	2016
Credit-related	P102,689,374	P84,214,146
Deposit-related	99,547,079	110,047,911
Miscellaneous	43,650,441	38,841,816
	P245,886,894	P233,103,873

Miscellaneous income consists of:

	2017	2016
Recovery on charged-off assets	P64,216,177	P60,019,641
Unrealized gain from non-financial assets	19,116,378	16,110,352
Income from trust division	8,136,237	6,450,486
Income (loss) from assets acquired	6,963,143	(127,189)
Dividend income	4,066,000	4,840,230
Rent income - safety deposit box	648,707	652,004
Income from assets sold/exchanged	16,578	198,516
Other income	35,768,086	16,452,092
	P138,931,306	P104,596,132

Other income consists of loan origination fees charged to the clients.

Miscellaneous expenses consist of:

	2017	2016
Insurance	P60,566,716	P52,659,680
Management and professional fees	30,884,536	39,326,924
Office supplies	22,785,198	18,102,747
Postage and cable	18,701,647	17,857,648
Advertising	10,230,060	7,966,394
Banking and supervision fees	9,898,056	8,953,700
Litigation	9,576,360	15,708,264
Telecommunications	8,592,624	8,296,675
Travel and transportation	5,700,177	6,385,075
Freight	2,500,242	3,695,138
Membership dues	2,032,510	1,569,829
Bank charges	2,022,084	1,849,991
Entertainment and representation	1,304,326	1,705,941
Fuel and lubricants	465,981	596,382
Other expenses	28,531,558	29,723,751
	P213,792,075	P214,398,139

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, 2017 and 2016, total assets held by the Bank's Trust Department amounted to P1.7 billion and P1.6 billion, respectively (see Note 25).

In connection with the trust operations of the Bank, government securities with carrying value of P19.6 million and P17.8 million (face value of P20.0 million and P18.0 million) as of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016 (amount in thousands):

	2017				Total
	Treasury	Institutional Banking	Retail Banking	Others	
Net Interest Income					
Third party	P101,412	P669,072	P1,045,332	P -	P1,805,816
Intersegment	81,111	(217,703)	137,035	(443)	-
	182,523	441,369	1,182,367	(443)	1,805,816
Non-interest income	149,762	74,161	314,974	6,404	545,321
Revenue - net of interest expense	332,305	515,530	1,497,341	5,961	2,351,137
Non-interest expenses	137,973	257,664	857,933	698,796	1,952,366
Income (loss) before income taxes	194,332	257,866	639,408	(692,835)	398,771
Income taxes	68,535	26,950	15,332		110,817
Net income (loss)	P125,797	P230,916	P624,076	(P692,835)	P287,954
Depreciation and amortization	P1,563	P2,675	P26,179	P28,406	P58,823
Software amortization	P7,150	P33	P1,898	P24,304	P33,385
Impairment losses	P -	P63,290	P137,124	P -	P200,414

	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 income taxes	302,070	122,431	573,632	(664,034)	334,099
Income taxes	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
Impairment losses (reversals of impairment losses)	P -	P108,257	P126,444	(P675)	P234,026

Segment information for the statements of financial position is as follows (amounts in thousands):

	Year	Segment Assets	Segment Liabilities	Capital Expenditures
Treasury	2017	P8,584,592	P4,387,609	P2,169
	2016	8,619,796	41,575	608
Institutional Banking	2017	21,180,165	13,258,059	2,902
	2016	17,257,360	12,654,713	3,418
Retail Banking	2017	10,107,122	14,661,762	28,072
	2016	9,798,639	15,397,461	27,645
Others	2017	454,394	678,653	42,415
	2016	387,958	840,851	37,814
Total	2017	P40,326,273	P32,986,083	P75,558
Total	2016	P36,063,753	P28,934,600	P69,485

Presented below is the reconciliation of information on reportable segments to PFRS measures.

	2017	2016
Revenues - net of interest expense		
Total revenue for reportable segments	P2,351,137	P2,248,384
Unallocated amounts		
Elimination of inter-segment revenue		
Consolidated revenue	2,351,137	2,248,384
Profit before Tax		
Total profit for reportable segments	398,771	334,099
Unallocated amounts		
Consolidated profit before tax	398,771	334,099
Assets		
Total assets for reportable segments	40,326,273	36,063,753
Unallocated amounts		
Consolidated total assets	40,326,273	36,063,753
Liabilities		
Total liabilities for reportable segments	32,986,083	28,934,600
Unallocated amounts		
Consolidated total liabilities	32,986,083	28,934,600

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):

	<i>Note</i>	2017	2016
Unused commercial letters of credit		P2,733,114	P3,537,185
Outward bills for collection		1,820,499	1,508,455
Trust department accounts	23	1,666,700	1,617,017
Credit commitments		-	1,448,983
Others		3,555	3,545

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").

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):

	2017	2016
Total outstanding DOSRI loans	P1,102	P22,787
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						
<i>Current Deposits</i>						
Deposits	2017	P3,450,300,514	P66,613,220	P -	Demandable;	Unsecured;
Withdrawals		(3,491,980,834)	-	-	non-interest bearing	no impairment
Deposits	2016	2,641,302,992	113,594,405	-	Demandable;	Unsecured;
Withdrawals		(2,571,286,082)	-	-	non-interest bearing	no impairment
<i>Bills Payable</i>						
Availments	2017	7,374,148,158	-	3,744,750,000	1-7days;	Unsecured;
Settlements		(3,607,960,415)	-	-	interest bearing	no impairment
Availments	2016	15,369,905,000	-	-	1-7days;	Unsecured;
Settlements		(18,126,317,283)	-	-	interest bearing	no impairment
<i>Interest Expense on Bills Payable</i>						
	2017	14,277,779	-	4,146,132	Demandable;	Unsecured; no
	2016	6,592,255	-	-	interest bearing	impairment
					Demandable; interest bearing	Unsecured; no impairment
Entities Under Common Control						
<i>Current Deposits to CTBC - New York</i>						
Deposits	2017	390,053,234	-	-	Demandable;	Unsecured;
Withdrawals		(414,591,713)	-	-	non-interest bearing	no impairment
Deposits	2016	1,465,874,198	23,973,309	-	Demandable;	Unsecured;
Withdrawals		(1,493,041,441)	-	-	non-interest bearing	no impairment
<i>Current Deposits to CTBC - Hongkong</i>						
Deposits	2017	928,045,215	29,630,675	-	Demandable;	Unsecured;
Withdrawals		(973,881,029)	-	-	non-interest bearing	no impairment
Deposits	2016	1,115,387,713	74,243,421	-	Demandable;	Unsecured;
Withdrawals		(894,445,965)	-	-	non-interest bearing	no impairment
<i>Current Deposits to CTBC - Canada</i>						
Deposits	2017	37,170,133	1,650,731	-	Demandable;	Unsecured;
Withdrawals		(36,874,667)	-	-	non-interest bearing	no impairment
Deposits	2016	5,916,955	924,932	-	Demandable;	Unsecured;
Withdrawals		(5,106,474)	-	-	non-interest bearing	no impairment

Forward

Category/Transaction	Year	Amount of the Transaction	Outstanding Balance		Terms	Conditions
			Due from Related Parties	Due to Related Parties		
Key Management Personnel						
<i>Loans and Receivables</i>						
Additions	2017	P21,196,213	P23,986,184	P -	1-5 years; Interest bearing	Secured and unsecured; with Impairment
Collections		(21,360,137)	-	-	1-5 years; interest bearing	Secured and unsecured; with Impairment
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
<i>Interest Income on Loans and Receivables</i>						
	2017	1,928,951	1,928,951	-	Demandable; interest bearing	Unsecured; no impairment
	2016	1,931,660	1,931,660	-	Demandable; interest bearing	Unsecured; no impairment
Other Related Parties						
Employees' retirement fund held by Trust Operations						
<i>Deposit Liabilities</i>						
Deposits	2017	357,568,455	-	1,577,740	1-3years, interest bearing	Secured, no impairment
Withdrawals		(356,554,238)	-	-	1-3years, interest bearing	Secured, no impairment
Deposits	2016	87,148,905	-	563,523	1-3years, interest bearing	Secured, no impairment
Withdrawals		(87,144,428)	-	-	1-3years, interest bearing	Secured, no impairment
<i>Interest Expense on Deposit Liabilities</i>						
	2017	34,056	-	-	Demandable; interest bearing	Unsecured; no impairment
	2016	52,064	-	-	Demandable; interest bearing	Unsecured; no impairment
TOTAL	2017	P3,671,719,685	P123,809,761	P3,750,473,872		
TOTAL	2016	(P2,481,822,816)	P238,817,835	P563,523		

All transactions with related parties are to be settled in cash.

In 2017 and 2016, there were no impairment losses recognized on loans and receivables from key management personnel.

The remuneration of directors and other members of key management personnel are as follows:

	2017	2016
Short-term benefits	P117,926,986	P98,096,599
Post-employment benefits	11,721,994	-
Other long-term benefits	953,021	910,626
	P130,602,001	P99,007,225

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, 2017 and 2016.

As of December 31, 2017 and 2016, the carrying values of the Bank's retirement plan assets, which approximate its fair value, amounted to P182.2 million and P193.6 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, 2017 and 2016 and are not indicative of either market risk or credit risk (in thousands).

	2017		Notional Amount
	Assets	Liabilities	
Freestanding Derivatives -			
 Currency forwards and swap			
Buy:			
USD/CHF	P -	P -	-
USD/EUR	-	502	USD1,783
USD/JPY	60	-	USD300
USD/PHP	3,786	62,171	USD110,840
USD/NZD	-	-	-
USD/AUD	-	-	-
USD/GBP	-	-	-
Sell:			
USD/PHP	72,038	475	USD125,897
	P75,884	P63,148	

	2016		Notional Amount
	Assets	Liabilities	
Freestanding Derivatives - Currency forwards and swaps			
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	

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):

	2017	2016
Net derivative asset at beginning of year	P115,983	P35,131
Net changes in fair value of derivatives	(103,623)	79,887
Fair value of settled contracts	377	965
Net derivative asset at end of year	P12,737	P115,983

28. Financial Performance

EPS amounts attributed to equity holdings of the Bank were computed as follows:

	2017	2016
a. Net income	P287,954,120	P213,047,078
b. Weighted average number of outstanding common shares ¹	247,564,631	247,564,631
c. Basic/Diluted EPS (a/b)	P1.16	P0.86

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:

	2017	2016
a. Net income	P287,954,120	P213,047,078
b. Average total equity	7,279,470,459	7,079,072,848
Return on average equity (a/b)	4.0%	3.0%
c. Net income	P287,954,120	P213,047,078
d. Average total assets	37,982,896,841	32,840,188,953
Return on average assets (c/d)	0.8%	0.7%
e. Net interest income	P1,805,815,596	P1,617,589,511
f. Average interest earning assets	37,690,295,706	30,438,256,293
Net interest margin on average earning assets (e/f)	4.8%	5.3%

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 2017 are as follows:

Gross receipt tax (GRT)	P133,483,929
Documentary stamp tax	38,934,187
Business licenses	3,009,292
Real property tax	714,711
Bank car registration	178,854
Annual registration fee	13,900
Community tax certificate	4,103
Business taxes	3,727
	P176,342,703

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 2017 are as follows:

	Tax Base	Total Remittances	Balance
Income subject to 5.0%	P1,714,294,543	P77,652,905	P8,061,822
Income subject to 1.0%	17,558,858	164,374	11,214
Other income subject to 7.0%	679,908,763	43,282,844	4,310,770
	P2,411,762,164	P121,100,123	P12,383,806

Documentary Stamp Tax

Movement in documentary stamp tax as follows:

	Balance
Documentary stamps on hand, December 31, 2016	P6,154,297
Purchases (BIR Form 2000)	142,000,000
Documentary stamps used	(143,992,327)
Documentary stamps on hand, December 31, 2017	P4,161,970

Withholding Taxes

Details of total remittances of withholding taxes in 2017 are as follows:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	P182,797,089	P23,866,707
Final withholding tax on interest on deposits	27,488,399	2,827,022
Expanded withholding taxes	21,884,477	1,867,138
	P232,169,965	P28,560,867

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. Pre-trial conference was concluded in 2017, with Makati RTC directing the submission of legal memorandum. Both plaintiff and defendant complied with the court's directive. With the submission of the legal memoranda, Makati RTC has considered the case submitted for decision.

**CTBC BANK (PHILIPPINES) COMMERCIAL BANK CORPORATION
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY
SCHEDULES**

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| Schedule II: | Reconciliation of Retained Earnings Available for Dividend Declaration |
| Schedule III: | Schedule of Financial Soundness Indicators |
| Schedule IV: | Relationship Map |
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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, 2017 and 2016, and have issued our report thereon dated March 8, 2018.

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 the following accompanying additional components are the responsibility of the Bank's management.

- Schedule of all Philippine Financial Reporting Standards (PFRSs)
- Reconciliation of Retained Earnings Available for Dividend Declaration

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 audit 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.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP - Selected External Auditor, Category A, valid for 1-year audit period (2017)
SEC Accreditation No. 1619-A, Group A, valid until March 15, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2016
Issued December 16, 2016; valid until December 15, 2019
PTR No. 6615139MD
Issued January 3, 2018 at Makati City

March 8, 2018
Makati City, Metro Manila

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, 2017**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
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			✓
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 (2014)		✓*	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		✓*	

* The Bank will adopt this new or amendment to standard effective January 1, 2018

**The Bank will adopt this new or amendment to standard effective January 1, 2019

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
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			✓
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: Clarification 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		✓ **	

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
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			✓
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	✓		

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
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			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
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	✓		

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
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 Property		✓*	
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
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 Transactions and Advance Consideration		✓ *	
IFRIC 23	Uncertainty over Income Tax Treatments		✓ **	
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	✓		

* The Bank will adopt this new or amendment to standard effective January 1, 2018

**The Bank will adopt this new or amendment to standard effective January 1, 2019

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		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			✓

* The Bank will adopt this new or amendment to standard effective January 1, 2018

**The Bank will adopt this new or amendment to standard effective January 1, 2019

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	✓		
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&As - Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - 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			✓
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017			
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building			
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures			✓
PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A 2017-05	PFRS 7 - Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		
PIC Q&A 2017-06	PAS 2, 16 and 40 - Accounting for Collector's Items			✓
PIC Q&A 2017-07	PFRS 10 - Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A 2017-08	PFRS 10 - Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	✓		
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property	✓		
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control			✓
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans			✓
PIC Q&A 2018-01	Voluntary changes in accounting policy	✓		
PIC Q&A 2018-02	Non-controlling interests and goodwill impairment test			✓
PIC Q&A 2018-03	Fair value of PPE and depreciated replacement cost			✓
PIC Q&A 2018-04	Inability to measure fair value reliably for biological assets within the scope of PAS 41			✓
PIC Q&A 2018-05	Maintenance requirement of an asset held under lease		✓	

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2018-06	Cost of investment in subsidiaries in SFS when pooling is applied			✓
PIC Q&A 2018-07	Cost of an associate, joint venture, or subsidiary in separate financial statements			✓
PIC Q&A 2018-08	Accounting for the acquisition of non-wholly owned subsidiary that is not a business			✓
PIC Q&A 2018-09	Classification of deposits and progress payments as monetary or non-monetary items			✓
PIC Q&A 2018-10	Scope of disclosure of inventory write-down			✓

Legend:

Adopted - means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

Not Adopted - means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.

Not Applicable - means the standard or interpretation is not relevant at all to the operations of the entity.

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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, 2017**

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning ¹		P -
Net income during the year closed to retained earnings	287,954,120	
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)	(104,075,753)	
Unrealized actuarial gain	-	
Fair value adjustment (marking to market gains)	(2,307,282)	
Deferred tax expense	30,434,593	
Fair value adjustment of Investment Property/AR- ICCS resulting in gain	19,116,378	
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	3,777,601	
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	341,008,583	
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	(341,008,583)	
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.

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SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2017

Liquidity Ratio

The ratio for the years 2017 and 2016 are as follows:

	2017	2016
Net liquid assets	P6,581,471,674	P12,291,864,487
Total deposits	26,701,900,983	26,967,086,220
Ratio of net liquid assets to total deposits	24.6%	45.6%

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 2017 and 2016 are as follows:

	2017	2016
Total liabilities	P32,986,083,120	P28,934,599,546
Total equity	7,340,189,331	7,129,153,350
Ratio of debt to equity	449.4%	405.9%

Assets to Equity Ratio

The ratio for the years 2017 and 2016 are as follows:

	2017	2016
Total assets	P40,326,272,451	P36,063,752,896
Total equity	7,340,189,331	7,129,153,350
Ratio of total assets to equity	549.4%	505.9%

Interest Rate Coverage Ratio

The ratio for the years 2017 and 2016 are as follows:

	2017	2016
Income before income tax	P398,770,794	P334,099,370
Interest expense	238,299,273	156,633,404
Interest coverage ratio	167.3%	213.3%

Profitability Ratios

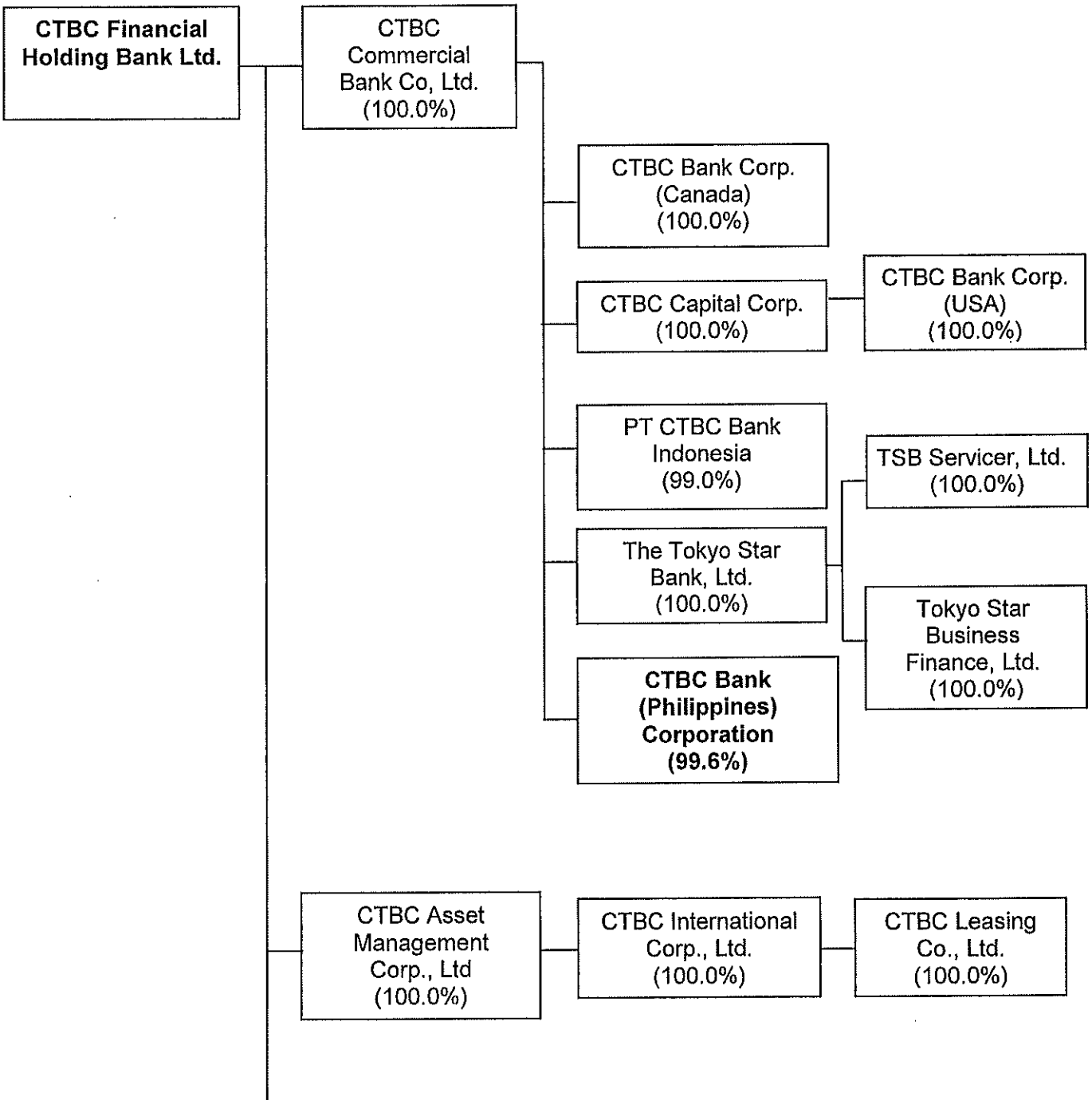
The ratio for the years 2017 and 2016 are as follows:

	2017	2016
a.) Net income	P287,954,120	P213,047,078
b.) Average total equity	7,279,470,459	7,079,072,847
Return on average equity (a/b)	4.0%	3.0%
c.) Net income	P287,954,120	P213,047,078
d.) Average total assets	37,982,896,841	32,840,188,953
Return on average assets (c/d)	0.8%	0.6%
e.) Net interest income	P1,805,815,596	P1,617,589,511
f.) Average interest earning assets	37,690,295,706	30,438,256,293
Net interest margin on average earning assets (e/f)	4.8%	5.3%

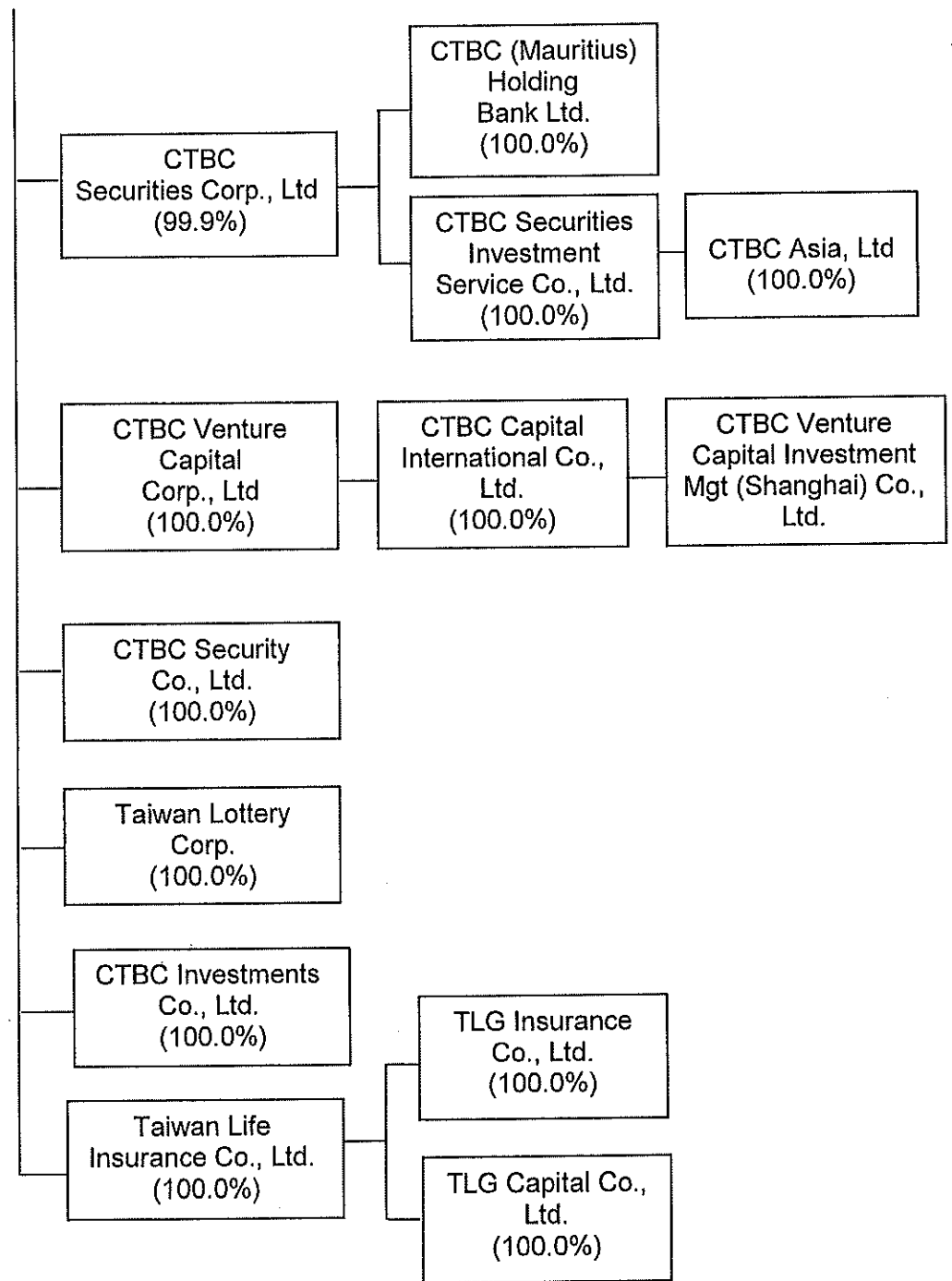
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RELATIONSHIP MAP
DECEMBER 31, 2017

Below is a map showing the relationship between and among the Group and its ultimate parent Bank, subsidiaries, and associates as of December 31, 2017:



(Forward)



Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

<u>Name of Debtor</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Collections</u>	<u>Ending Balance</u>
Employee Loans/Total	P24,150,108	P21,196,213	(P21,360,137)	P23,986,184

Capital Stock

Below is the composition of the Bank's capital stock (in thousands):

	<u>Shares</u>	<u>Amount</u>
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

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SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED
BY ANNEX 68-E
DECEMBER 31, 2017

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, 2017:

Name of Issuing Entity and Association of Each Issue	Number of Shares	Amount Shown in the Statements 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	P269,252,035	P269,252,035	P23,423,715
Government (USD)	n/a	11,817,233	11,817,233	6,040,690
Sub-total		281,069,268	281,069,268	29,464,405
Private (PHP)	n/a	-	-	80,249
Private (USD)	n/a	59,176,237	59,176,237	290,297
Total		340,245,505	340,245,505	29,834,951
Derivative assets	n/a	75,884,166	75,884,166	-
		P416,129,671	P416,129,671	P29,834,951
AFS Investments				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P -	P -	P890,907
SMINV (USD)	n/a	-	-	1,146,359
BDO (USD)	n/a	-	-	155,478
UBP (USD)	n/a	-	-	31,515
Philippine Government (USD)	n/a	1,057,882,388	1,057,882,388	28,931,194
Total		1,057,882,388	1,057,882,388	31,155,453
Unquoted equity securities:				
BANCNET	50,000	6,940,717	n/a	-
PCHC	21,000	5,000,100	n/a	-
BAP	5,000	500,000	n/a	-
Total		12,440,817		
Club shares accounted as AFS equity investments:				
Orchard Gold and Country Club	1	290,000	290,000	-
Subic Bay Yacht Club Corporation	1	208,000	208,000	-
Total		498,000	498,000	-
		P1,070,821,305	P1,058,380,388	P31,155,453
HTM Investments				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P155,547,012	P155,985,966	P4,530,700
Philippine Government (USD)	n/a	954,748,679	983,685,909	27,560,877
Total	n/a	P1,110,295,691	P1,139,671,875	P32,091,577

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, 2017 and 2016 are as follows (in millions):

	2017					
	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Statements of Financial Position	Net Amounts of Financial Assets Presented in the Statements of Financial Position	Related Amounts not Offset in the Statements of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
Financial Assets						
Derivatives-trading assets	P76	P -	P76	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements	-	-	-	-	-	-
Loans and receivables	-	-	-	1,207	1,207	-
Total	P76	P -	P76	P1,207	P1,207	P -
Financial Liabilities						
Derivatives-trading liabilities	P63	P -	P63	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
Total	P63	P -	P63	P -	P -	P -

	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 -

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.

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):

2017					
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	P76	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		63	Derivative liabilities	-	-
Sale and repurchase securities lending and similar agreements		-	-	-	-
Derivatives held for risk management		-	-	-	-
Customer deposits		-	-	-	-
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	8	-	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		-	-	-	-

ANNEXES

(Additional Disclosures not included in the
SEC 2017 Annual Report)

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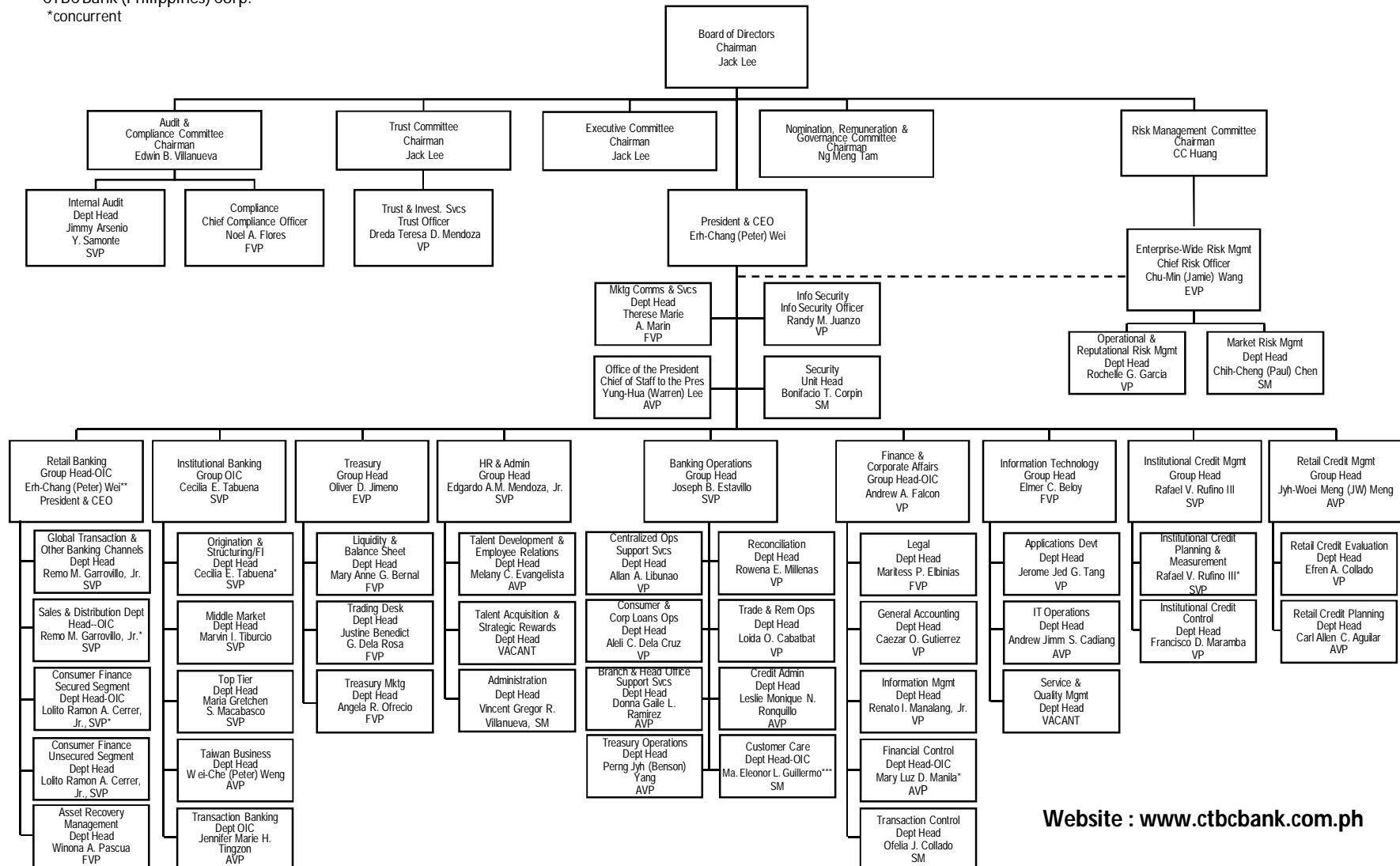
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ANNEX 1

Bank Organizational Structure

As of 31 December 2017

CTBC Bank (Philippines) Corp.
*concurrent



Website : www.ctbcbank.com.ph

ANNEX 2: CORPORATE GOVERNANCE

A. Corporate Governance Structure and Practices

Board oversight on good governance of the Bank is very essential for the stability and success of the institution. As such, part of the implementation of the governance structure, designated board committees ensures that their respective oversight covers all areas how the risks, the business and controls are effectively monitored and efficiently managed.

Good Corporate Governance is the foundation of safe and sound banking operations and a reflection of the collective values and competence of the board of directors and senior management team. It embodies the principles of fairness, accountability and transparency thus promoting the protection of the rights of all stakeholders and as stated in the Bank's Vision and Mission and Code of Ethics.

The Board is primarily responsible for the governance of the Bank. The Bank's financial condition, results of operations, current and potential level of risk exposures and the quality of the control environment are the ultimate responsibility of the board of directors. As such, Board Governance is the deciding component and a crucial part in the functions of the institution. Good governance ensures that objectives are realized, resources are well-managed, and the interests of the stakeholders are protected and reflected in the decisions and oversight on the effective implementation of the governance standards and principles.

The Bank sets and adopts the following factors to ensure good corporate governance and oversight to the implementation of its processes and performance.

B. Selection Process for the Board and Senior Management

INDEPENDENT DIRECTOR

In selecting Independent and non-Executive Directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities. In this regard, the following shall apply:

1. A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be separately considered in assessing compliance with this requirement; and
2. An independent director of a Bank may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same Bank, but may continue to serve as regular

director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

DIRECTORS

The Bank ensures that the selection, election and re-election process for the members of the board of directors is adequate, fair and reflective of the standards set by the board. The Bank's Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension is through the Appointment by the parent bank and approved by the Board of Directors and in accordance with this Corporate Governance Manual and in the provision of our By-Laws.

SENIOR MANAGEMENT

The selection process for Senior Management begins by identifying if there are successors ready to assume senior management roles through the Bank's Management Succession Plan. However, in the absence of a ready successor, the Bank takes a look at external candidates who possess the appropriate educational background, skills, experience and competencies to perform the function. In determining suitability, Management draws out the values, culture and expectations of a candidate to make sure they are aligned with those of the organization. Once candidates are shortlisted, the Board decides who will be selected following a rigorous interview and background screening process.

C. Board's Overall Responsibility

The Board of directors is primarily responsible for defining the Bank's Vision and Mission. The Board of directors has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. (Cir 969)

- It shall approve and oversee the implementation of strategies to achieve corporate objectives;
- It shall also approve and oversee the implementation of the risk governance framework and the system of checks and balances;
- It shall establish a sound corporate governance framework
- It shall approve the selection of the CEO and key members of senior management and control functions and oversee their performance.

D. Role and Contribution of Executive, Non-Executive and Independent Directors and of the Chairman of the Board

CHAIRMAN OF THE BOARD

The Chairman of the Board of Directors shall provide for the leadership in the board of directors. He ensures effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. 0

Following are the responsibilities:

1. Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
2. Ensure a sound decision making process;
3. Encourage and promote critical discussion;
4. Ensure that dissenting views can be expressed and discussed within the decision making process;
5. Ensure that members of the board of directors receives accurate, timely and relevant information;
6. Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
7. Ensure conduct of performance evaluation of the board of directors at least once a year.
8. Ensure that the meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary;
9. Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the Directors, and;
10. Maintain qualitative and timely lines of communication and information between the Board and Management.

CHIEF EXECUTIVE OFFICER

The CEO shall be the overall-in-charge for the management of the business and affairs of the Bank governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors in championing the desired conduct and behaviour, implementing strategies, and in promoting the long-term interest of the Bank.

One of the critical duties and responsibilities of the Board of Directors is the selection of the Chief Executive Officer (CEO) and the members of the management team.

Members of the Management Team are primarily tasked to:

- a. Oversee the implementation of approved business plans and strategies and management of the Bank's day to day operations;
- b. Translate to their performance the fitness and propriety of the management on effectively achieving the Bank's objectives;
- c. Cascade the tone of governance and culture of control within the Bank;
- d. Ensure that the reports and information package submitted by the management to the board also reflect the quality and extent of its performance;
- e. Involve in the development of strategies and in monitoring achieving of the business plans;
- f. Effectively monitor adherence to the policies and procedures and promptness of actions to address the deficiencies and weaknesses noted.
- g. Plans provided to retain competent staff and attract new employees who believe and adhere to the values of the organization and inform the board on a timely basis of the Bank's operating performance as well as the development in the business environment.
- h. Responsible for the implementation and consistent adherence by all personnel to the policies approved by the board of directors in relation to controls, independent oversight and checks and balances systems, ensuring among others that:
 - (i) Financial statements are prepared in accordance with the accounting standards on the prescribed financial reporting framework. Documentation sufficient to support the financial statements is maintained. This responsibility includes ensuring that the external auditor who audits and reports on the financial statements has complete and unhindered access to, and is provided with, all necessary information that can materially affect them and, consequently, the auditor's report on them, to the extent allowed by law. Management also has the responsibility to provide all information to regulatory agencies that are entitled to such information by law or regulation.
 - (ii) Management is responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness and sustainability of the FI's risk management and control procedures and infrastructure. In fulfilling its duties and responsibilities, management should take all necessary measures to ensure that there is continuous, adequate and effective internal audit process.
- i. Effective oversight on the Bank's disclosure practices.

Non-Executive Director (NED) refers to those who are not part of the day to day management of the Bank's operations.

E. Board Composition & Its Members

Board Composition as of 31 Dec 2017	Type of Directorships	The Principal Stockholder Represented if Nominee	The Number of Years Served as Director (Sept 1995-Dec 2017)	Percentage of Shares Held to Total Outstanding Shares of the Bank
Jack Lee a.k.a. Lee Wen-Hung	Director	CTBC Bank Co., Ltd.	6	0%
William B. Go	Director	CTBC Bank Co., Ltd.	22	0%
Wei Erh-Chang a.k.a. Peter Wei	Director	CTBC Bank Co., Ltd.	10 months	0%
Nick Huang a.k.a Huang Yi	Director	CTBC Bank Co., Ltd.	2 months	0%
Huang Chih-Chung a.k.a. C.C. Huang	Director	CTBC Bank Co., Ltd.	3	0%
Edwin B. Villanueva	Independent Director	CTBC Bank Co., Ltd.	15	0%
Ng Meng Tam	Independent Director	CTBC Bank Co., Ltd.	10	0%

F. Board Qualification

QUALIFICATIONS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

1. He must be a non-executive director or an independent director
2. He must not have serve as CEO of the Bank within the past three (3) years.
3. The positions of Chairman and the CEO shall not be held by one (1) person.

QUALIFICATIONS OF A DIRECTOR

In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications which include, among others, the following:

1. College education or equivalent academic degree;
2. Practical understanding of the business of the corporation;
3. Membership in good standing in relevant industry, business or professional organizations;
and
4. Previous business experience.

A director shall have the following minimum qualifications:

1. He shall be at least twenty-five (25) years of age at the time of his election or appointment.
2. He shall be at least a college graduate or at least five (5) years' experience in business.
3. He must have attended a special seminar on corporate governance for board of directors conducted or accredited by BSP. If have not attended, should attend within six (6) months from date of election.
4. He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness, relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

In assessing a directors' integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behaviour, as well as his ability to continuously comply with company policies and applicable laws and standards of any regulatory body, professional body, clearing house or exchange or government and any of its instrumentalities/agencies.

5. He must have attended a seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral - prescribed syllabus on corporate governance for first time directors and documentary proof of compliance: Provided, that the following persons are exempted from complying with the aforementioned requirements:
 - (a) Filipino citizens with recognized stature, influence and reputation in the banking community and whose business practices stand as testimonies to good corporate governance;

(b) Distinguished Filipino and foreign nationals who served as senior officials in central banks and/or financial regulatory agencies, including former Monetary Board members;

(c.) Former Chief Justices and Associate Justices of the Philippines Supreme Court;

Provided further, that this exemption shall not apply to the annual training requirements for the members of the board of directors.

G. List of Board Level Committees Including Membership and Function

(Refer to SEC Report 17-A, page 38)

H. Directors' Attendance at Board and Committee Meetings

Name of Directors	Date of Board Meeting for the Year 2017						
	22-Feb	27-Mar	25-Apr	Jun 22[1]	13-Sep	26-Oct	14-Dec
Jack Lee	✓	✓	✓	X	✓	✓	✓
William B. Go	✓	✓	✓	✓	✓	✓	✓
Wen-Hsiung Tsai[2]	✓	n/a	n/a	n/a	n/a	n/a	n/a
Erh-Chang Wei[3]	✓	✓	✓	✓	✓	✓	✓
Huang Chih-Chung	✓	✓	✓	✓	✓	✓	✓
Frank Shih[4]	✓	✓	✓	✓	✓	✓	n/a
Yi Huang[5]	n/a	n/a	n/a	n/a	n/a	n/a	✓
Edwin B. Villanueva	✓	✓	✓	✓	✓	✓	✓
Ng Meng Tam	✓	X	✓	✓	✓	✓	✓

Organizational and Regular Meeting
Resigned effective February 22, 2017
New Director effective February 22, 2017
Resigned effective October 26, 2017
New Director effective October 27, 2017

Name of Directors	Date of Meeting for the Year 2017					
	22-Feb	25-Apr	Jun 22[1]	13-Sep	26-Oct	14-Dec
RMC						
Huang Chih-Chung	✓	✓	✓	✓	✓	✓
Jack Lee	✓	✓		✓	✓	✓
William B. Go	✓	✓	✓	✓	✓	✓
Wen-Hsiung Tsai	✓	n/a	n/a	n/a	n/a	n/a
Erh-Chang Wei	n/a	✓	✓	✓	✓	✓
Ng Meng Tam	✓	✓	✓	✓	✓	✓
Frank Shih	✓	✓	✓	✓	✓	n/a
Yi Huang (Nick)	n/a	n/a	n/a	n/a	n/a	✓

[1] Organizational and Regular Meeting

Name of Directors	Date of Meeting for the Year 2017					
	22-Feb	25-Apr	Jun 22[1]	13-Sep	26-Oct	14-Dec
TRUST COM						
Jack Lee	✓	✓	x	✓	✓	✓
William B. Go	✓	✓	✓	✓	✓	✓
Huang Chih-Chung	✓	✓	✓	✓	✓	✓
Wen-Hsiung Tsai	✓	n/a	n/a	n/a	n/a	n/a
Erh-Chang Wei	n/a	✓	✓	✓	✓	✓

[1] Organizational and Regular Meeting

Name of Directors	Date of Meeting for the Year 2017					
	22-Feb	25-Apr	Jun 22[1]	13-Sep	26-Oct	14-Dec
AUDIT COM						
Edwin Villanueva	✓	✓	✓	✓	✓	✓
Yi Huang (Nick)	n/a	n/a	n/a	n/a	n/a	✓
Frank Shieh	✓	✓	✓	✓	✓	n/a
Ng Meng Tam	✓	✓	✓	✓	✓	✓

[1] Organizational and Regular Meeting

Name of Directors	Date of Meeting for the Year 2017						
	21-Feb	27-Mar	24-Apr	Jun 21[1]	12-Sep	25-Oct	13-Dec
NRGC							
Ng Meng Tam	✓	x	✓	✓	✓	✓	✓
Jack Lee	✓	✓	✓	x	✓	✓	✓
William B. Go	✓	✓	✓	✓	✓	✓	✓
Edwin B. Villanueva	✓	✓	✓	✓	✓	✓	✓
Frank Shih	✓	✓	✓	✓	✓	✓	n/a
Yi Huang	n/a	n/a	n/a	n/a	n/a	n/a	✓

[1] Organizational and Regular Meeting

I. Changes in the Board of Directors - CORSEC

(Refer to SEC Report 17-A, page 6)

J. List of Executive Officer & Senior Management

Executive Officers

The following are the Bank's executive officers/senior management and Mancom:

PETER WEI, a.k.a Erh-Chang Wei, Taiwanese, obtained his Bachelor's degree in Agricultural Mechanical Engineering from National Taiwan University. Peter also earned his Master's in Business Administration from the same university. He was elected as Board Director on February 22, 2017 and subsequently appointed as President and CEO of CTBC Bank (Phils) Corp. on May 2, 2017. Peter began his career as Product Manager of Unilever Taiwan Ltd. in 1994. Years later, he joined ABN AMRO Bank Taipei where his last held position was Vice President of Taiwan SME Business. He then transitioned to the manufacturing industry in 2000 when he joined Primax Electronics Taiwan as Vice President of Strategy Planning. Peter returned to ABN AMRO Bank Taipei two years later. There he assumed the position of Senior Vice President of Hong Kong SME Business. In 2006, Peter became part of CTBC Bank Co. Ltd (Taiwan) and held various management and business leadership roles. He began as Senior Vice President of Strategic Planning Department where he was directly involved in Customer Relationship Management, Auto Channel and Small-and-Medium Enterprises Financing. Peter moved to the Overseas Division of Retail Banking in 2011 as Executive Vice President and Division Head. He also served on the board of directors of CTBC's Indonesian subsidiary—PT Bank CTBC Indonesia—from June 2012 to March 2017. Mr. Wei 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 64 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 51 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 Executive 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 47 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 57 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 40 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 54 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 iTouch Point 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 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 48 years old.

LOLITO RAMON A. CERRER, JR., Filipino, earned his AB Philosophy degree from the Ateneo De Manila University. Prior to joining CTBC Bank as Senior Vice President and Consumer Finance Sales Unsecured Head in April 2017, he was previously the Head of Personal Loans of Security Bank, a role he performed for five years. He likewise had stints at Philippine Savings Bank, APEX Distributors Inc., Metrovet Philippines, Century Canning Corporation, Universal Food Corporation and Philippines Commercial International Bank. At the early part of his career, Jun taught philosophy at the Holy Apostles Senior Seminary. Jun is 55 years old.

CECILIA E. TABUENA, Filipino, graduate of Bachelor of Science in Commerce major in Marketing Management and Bachelor of Arts in Psychology from De La Salle University. She also finished her Master of Business Administration major in Finance from Peter F. Drucker Graduate School of Management, Claremont Graduate University in California, USA. She brings with her almost 20 years of experience first starting as a Money Market Trader at All Asia Capital and Trust Company. 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 DCM team of Citi's Emerging Markets Sales and Trading prior to being appointed as the Head of Debt Capital Markets. In 2008, she joined Security Bank Corporation as First Vice President and Head of Fixed Income Securities Distribution. She is 51 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 47 years old.

RAFAEL V. RUFINO III, Filipino, obtained his Bachelor of Science in Commerce, Major in Business Management at De La Salle University. He holds the rank of Senior Vice President. He started his banking career with First e-Bank Corporation as Consultant for 11 years starting in 1991. Mr. Rufino joined CTBC Bank as Relationship Manager in 2003 with the rank of Senior Manager. He was assigned as Credit Officer from 2005 to 2013. Mr. Rufino is appointed as Group Head of Institutional Credit Risk Management Group in July 2017. He is 50 years old.

NOEL A. FLORES, Filipino, graduate of Bachelor of Science in Business Administration and Accountancy from University of the Philippines. He obtained his Master's degree in Business Administration from the same university. He holds the rank of First Vice President/Chief Compliance Officer and Compliance Department Head. Prior to joining CTBC Bank in September 2011, his banking career started with Citytrust Banking Corp. from 1991 to 1996. This was followed by his stint as Portfolio Manager in Bank of the Philippine Islands from 1996 to 1998. He later on joined ING Bank, N.V., Manila Branch as Compliance/Finance/Risk Officer with the rank of Assistant Vice President from 1998 to 2002. He also held different positions with GE Money Bank for six years where his last role was Deputy Compliance Officer and Chief Anti-Money Laundering Officer. He is 56 years old.

ANDREW A. FALCON, Filipino, is a Certified Public Accountant. He earned his Bachelor's degree in Business Administration and Accountancy from University of the Philippines. He joined CTBC Bank as Vice President and Head of Financial Control Department in June 2014. After steering the department for more than three years, he was appointed Officer-in-Charge of Finance and Corporate Affairs Group in October 2017. He was promoted to First Vice President and full-fledged Group Head in January 2018. Prior to joining the Bank, Mr. Falcon had stints in SGV and Co., Globe Telecom, Inc., Philippine Batteries Inc., Philippine Savings Bank and the latest of which was with FedEx as Controller. He is 36 years old.

DREDA TERESA D. MENDOZA, Filipino, holds a Bachelor of Science in Business Administration major in Accountancy from Mindanao State University. She joined the Bank in December 2014 as Department Head/Trust Officer with the rank of Vice President. Ms. Mendoza has 20 years of banking experience gained from three financial institutions. Her banking career started with Security Bank Corporation where she rose up the career ladder with her 14-year stint. She later joined Sterling Bank of Asia as Head of Trust Group from 2008 to 2011. Ms. Mendoza moved to First Metro Investment Corporation (Metrobank Group) where she was Trust Officer for 2 years and was appointed Deputy Head of Investment Advisory and Trust Group for another year. She is 46 years old.

THERESE MARIE A. MARIN, Filipino, obtained her AB Communication Arts degree from De La Salle University. She is First Vice President and Head of Marketing Communications and Services Department. Her extensive marketing and communications experience started in 1994 with Security Bank Corporation where she was Advertising and Publications Supervisor. She worked with International Exchange Bank (iBank) for 10 years where her last role was as Marketing Communications Officer. She joined CTBC Bank as Marketing Services Head in 2007. She is 46 years old.

K. Performance Assessment Program

DIRECTORS

GOVERNANCE SELF-RATING SYSTEM

The Board, using such resources or methods as it determines, is responsible to annually assess the effectiveness of the Board, Board Committees and each Director's contribution. The purpose of the evaluation process is to increase the overall effectiveness of the Board, not to target individual Board members.

The Directors participate in the evaluation. Each Director evaluates the performance of the Board as a whole, as an individual director, the Chairman of the Board, the Chief Executive Officer and Board Committees. The assessments are made as derived from the Board of Directors and Directors' Duties and Responsibilities as stated in this manual and in their respective charters. The results of the evaluation are used constructively by the Nomination, Remuneration and Governance Committee to discuss improvements with the Board and to provide developmental feedback to individual Directors.

BOARD SELF-ASSESSMENT

LOCAL REGULATOR REQUIREMENTS:

1. General Evaluation of the Board
2. Individual Self-Assessment by Directors
3. Qualitative Self-Assessment
4. Evaluation of the Board Chairman
5. Evaluation of the Chief Executive Officer
6. Board Committee Assessments
 - Executive Committee Assessment (ExCom)
 - Nomination & Remuneration Governance Committee (NRGC)

- Audit Committee (Audit Com)
- Risk Management Committee (RMC)
- Trust Committee (Trust Com)

SENIOR MANAGEMENT

More than a traditional vehicle for measuring performance, the Bank's Performance Appraisal program serves as a vital feedback system for drawing out strengths and pinpointing areas for development. It is meant to not just ensure performance of employees is at par with the standards set by the Bank, but also to provide a platform for constructive dialogue between supervisors and subordinates with the objective of enhancing performance and identifying the potentials of employees.

The results of Performance Appraisal are used in Management's remuneration decisions as they are linked to the Bank's rewards program (i.e. Promotion, Merit Increase, Profit Sharing Bonus and Performance Incentive Bonus).

L. Orientation and Education Program

Directors Continuing Education

- Ensure allocation of sufficient time, budget and other resources for the continuing education of directors, and draw on external expertise as needed.
- Establish and ensure effective implementation policy for on-boarding/orientation program for first time directors and annual continuing education for all directors.
- For this purpose, the orientation program for first time directors shall be for at least eight (8) hours, while the annual continuing training shall be at least for four (4) hours. The training programs should cover topics relevant in carrying out their duties and responsibilities as directors.

Senior Management Continuing Education

The Bank's New Talent Orientation Program (NTOP) is designed to support newly hired officers and staff as they begin their journey with CTBC Bank. It orients new talents on the Bank's history, company policies, performance appraisal, compensation and benefits, and rewards programs. NTOP is also meant to acquaint new talents with the Bank's products and services to educate them about what the Bank has to offer.

The Bank's Training Program helps to provide technical, behavioural and personal development to its officers and staff. Supervising Officers play a key role in identifying the training and developmental needs of their subordinates through an exercise called Training

Needs Analysis. Depending on the developmental needs of employees, the Bank may provide in-house workshops and/or arrange attendance to external training programs.

M. Retirement and Succession Policy

Directors

The Board of Directors shall approve remuneration and other incentives policy that is appropriate and consistent with the Bank's operating and risk culture, long-term business and risk appetite, performance and control environment. The policy shall cover all employees and should be designed to encourage good performance that supports the interest of the bank and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking as defined by internal policies.

On Succession, NRCG functions as the Bank's Committee on Corporate Governance and Compensation and Remuneration Committee. The Committee oversees the nomination process for members of the Board of Directors and for positions appointed by the Board of Directors. They shall review and evaluate the qualifications of all persons nominated to the board of directors as well as those nominated to the board of directors as well as those nominated to other positions requiring appointment by the board of directors. Likewise recommend to the board of directors matters pertaining to the assignment to board committees, as well as succession plan for the members of the board of directors and senior management.

Senior Management

Employees age 60 and older with at least 5 years of full time service may retire from the Bank and be eligible for retirement benefits. A qualified employee may be entitled to as low as 75% or as high as 175% of his Plan Salary depending on the years of credited service at the time of the retirement.

The Bank's Management Succession Plan aims to identify and develop potential successors of employees occupying key management positions in the organization. The Bank's Human Resource and Administration Group plays a key role as it coordinates with Senior Management to identify critical positions in the organization and evaluate the potential successors to the incumbents in terms of their level of readiness. Potential successors are prepared to assume bigger roles through various training and development programs and interventions as well as exposure to senior management interactions. The Succession Plan is approved by the Board on an annual basis.

N. Remuneration Policy

i. Remuneration Policy and Structure for Executive and Non-Executive Directors

The Bank's By Laws in Article III. Section 9. Directors' Fees provides: "A per diem in such amount as the Board may approve shall be paid to each director for attendance at any meeting of the Board of Directors or of any Committee constituted under Article V hereof, for each day of session and fees as may be determined by the Board of Directors and subject to stockholders' approval. However, nothing herein contained shall be construed to preclude any director from serving in any other capacity and receiving compensation therefore. "

Moreover, the Bank's Corporation Governance Manual provides: Remuneration of the Members of the Board and Officers.

The Board of Directors shall approve remuneration and other incentives policy that is appropriate and consistent with the Bank's operating and risk culture, long-term business and risk appetite, performance and control environment. The policy shall cover all employees and should be designed to encourage good performance that supports the interest of the bank and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking as defined by internal policies.

The NREGC shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes, at least annually, to ensure that it operates and achieves the objectives as intended.

ii. Remuneration Policy for Senior Management

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.

O. Policies and Procedures on Related Party Transactions

The Bank has established a formal policy on related party transactions. The RPT Policy is regularly updated and approved by the Board and where the procedures from different units of the Bank are cross-referenced to. It identifies, evaluates and captures relevant transactions that

may present risks on potential abuse in terms of related party transactions taking into account the related standards in observing arm's length, dealings and subjecting transactions to effective system of checks and balances, approval, reporting and disclosure process.

For good corporate governance and employing safe and sound banking practice, the need to restrict lending and other transactions to a Related Party are embodied in the documents in order to prevent potential abuses, avoid conflict of interest and protect the interest of the stakeholders. The Bank shall establish a system of record of the names of Bank's DOSRI (Directors, Officers, Stockholders and Related Interests) and Related Parties including up to the second (2nd) degree of consanguinity and/or affinity. This shall also include the Bank's parent bank's list or names of its Related Parties directly inputted in the system. A system shall be established as reference in evaluating applications. Through these information and disclosures, the Bank will be able to identify and determine whether they have a direct or indirect or on behalf of third parties have a financial interest in any transaction or matters affecting the Bank. 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.

While the Bank, not being part of a local conglomerate or directed by BSP to create Related Party Transaction Committee, 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 is used as reference to determine the Materiality Thresholds and Excluded Transactions, Internal Limits for Internal and Aggregate Exposures. This process shall be continuously monitored and enhanced to accommodate and align the regulatory requirements in the actual adoption of the procedures. 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.

P. Self-Assessment Function

INTERNAL AUDIT

Internal audit is an independent, objective assurance and consulting function established by the bank to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes. The internal audit function both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit is conducted in frequencies commensurate with the assessed levels of risk in specific banking areas.

The Bank has a permanent internal audit function that is accountable to the Board of Directors through the Audit Committee and likewise report to the Head of the Internal Audit function of the Parent Bank.

While management is primarily responsible for maintaining a sound internal control system in the bank, the internal auditors assist the Bank's management by examining and evaluating the adequacy and effectiveness of control, commensurate with the extent of the potential exposure/risk in the various segments of the entity's operations

COMPLIANCE

Compliance Risk Management System of the Bank establishes the appropriate controls to identify and mitigate the risks of legal or regulatory sanctions, material financial loss or loss to reputation. A bank may suffer as a result of failure to comply with all applicable laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities. Said risk may also arise from the failure to manage conflict of interest, treat customers fairly or effectively manage risks arising from money laundering and terrorist financing activities. The Bank's Compliance Department is independent in its function that identifies, assesses, advises, monitors and reports on the Bank's Compliance Risks. It creates a dynamic compliance system and fosters a culture of compliance within the institution. Compliance Risk Management System has been continuously enhanced and form part of the Bank's compliance culture and risk governance. While 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 and is a responsibility and shared accountability of all personnel, officers and the board of directors. (Circular 972 Series of 2017)

I. Strategies & Processes

In ensuring oversight and monitoring of Compliance Risks, the Compliance Department through its Chief Compliance Officer, aims to mitigate both risk areas through identification of the roles and responsibilities of Compliance within the line, operating and business units of the Bank and its resolution in cases of possible breaches.

II. Structure & Organization

As of December 2017, Compliance Department is composed of eight (8) Compliance Officers and four (4) Compliance Associates including the Chief Compliance Officer who is also the Associated Person and Responsible Officer. Their respective 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.

III. Scope & Nature of Risk Reporting and Measurement Systems

Compliance Department is an independent unit as a second line of defence is reporting directly to the Board of Directors through the Audit Committee for Compliance matters and to Nomination and Remuneration Committee for the Governance Functions. Administratively, Compliance Department 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.

Q. Dividend Policy

(Refer to SEC Report 17-A, page 16)

R. Corporate Social Responsibility Practices

After the Bank's turnover of the three (3) disaster-resilient school buildings in Northern Cebu to its intended beneficiaries and the conclusion of its "Better Readers. Brighter Future." program in 2015, the Bank is currently on the lookout for a worthwhile educational program it can support.

S. Consumer Protection Practices

Roles and Responsibilities of the Board of Directors

1. Primarily responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as mechanism to ensure compliance with the said policy.
2. Responsible for monitoring and overseeing the performance of the Senior Management in managing the day to day consumer protection activities of the Bank.
3. Delegate the other duties and responsibilities to the Senior Management or a committee for the purpose.

4. Responsible for developing and maintaining a sound CPRMS that is integrated into the overall framework for the entire product and service life-cycle.

Roles and Responsibilities of the Senior Management

1. Responsible for the implementation of the consumer protection policies as well as mechanism to ensure compliance with said policies.
2. Manage the day to day consumer protection activities of the Bank.
3. Quality and timeliness of the information provided to the key-decision makers regarding the Bank's CPRMS are important in assessing the program's effectiveness.
4. Ensure that the sufficient resources have been devoted to the program.
5. Make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.

The Consumer Protection Risk Management System of the Bank

Ensure that *Consumer Protection Risk Management System (CPRMS) should form part of the Bank Wide Risk Management System.

*Consumer Protection Risk Management System (CPRMS):

1. A means by which the Bank identifies, measure, monitor and control consumer protection risks inherent in its operations. These include both risks to the financial consumer and the Bank; this should be directly proportionate to the Bank's asset size, structure and complexity of operation;
2. This is carefully devised, implemented and monitored aims to provide foundation for ensuring the Banks adherence to the consumer protection standards of conduct and compliance with the requirements.

The Consumer Assistance Management System Policies and Procedures and its Corporate Structure

CTBC Bank (Philippines) Corp. through the Compliance Department has cascaded in its Compliance Bulletin the summary of the requirements of the Circular 857 on BSP Regulations on Financial Consumer Protection for information of all employees of the Bank.

Customer Care Department's Consumer Assistance Unit has been created to serve as the overall unit who will do the functions required in the BSP Circular. Part of its functions is the monitoring and analysis of the Bank's clients concerns.

Operational and Reputational Risk Management Department shall be the department who reports directly to the Operations Committee of Management and Risk Management Committee of the Board. This aims to monitor, evaluate the overall complaints, requests and other concerns of the Bank's clients.

Compliance Department has established the Consumer Protection Compliance Program as a formal document, approved by the Board to provide reference bank wide. The manual comprises the Roles and Responsibilities of the Board of Directors, Senior Management and concerned units/groups as well as the principles of the Bank's General Consumer Protection Standards.

Other units and departments such as the Internal Audit Department, Customer Care Department, Credit Risks Departments and Business Units are hereby notified of the necessary amendments and/or creation as the case may be that they need to adopt in their respective units/departments written documents to align with the Bank's Consumer Protection Compliance Program Manual.

Customer Care Department's Consumer Assistance Unit shall be the central recipient of all clients' complaints, requests and other concerns and Customer Management Portal (CMP) is the system used as a tool.

ANNEX 3: Risk Management System & Structure

BANK'S RISK PHILOSOPHY

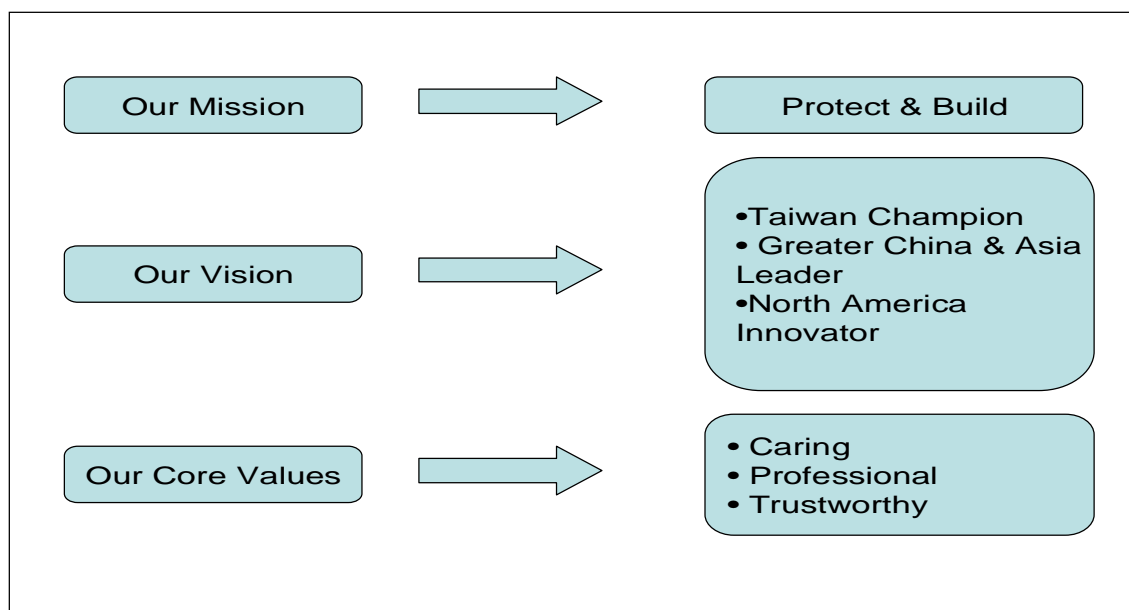
The Bank operates according to its established risk philosophy, where the Board is responsible for approving, reviewing, supervising, and overseeing the Bank's risk strategy, policies, appetite and limits. Following the Board's instruction, the Bank's senior management team and various risk management 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.

BANK'S RISK APPETITE

Along with the business of taking risks, 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, risk policies, risk appetite and risk 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 being properly understood, controlled and managed, in addition to the risk processes which must be clearly aligned with the Bank's business strategies. To ensure the Bank's operations, strategies and risk appetite are in line with the Board's policy, performance against Risk Appetite is measured and reported to senior management and/or Board regularly throughout the year. The aim is to protect the Bank against unforeseen losses that could arise from taking risk beyond the Bank's risk appetite, so as to achieve the ultimate goal of maximizing shareholder values. However, if breaching of appetite or limit occurs under certain circumstances, the risk management team should seek approval from Senior Management and/or Board, and to ensure appropriate action may be taken.

The Bank defines Risk Appetite as the level of risk the Bank chooses to take in pursuit of its vision and business objectives. The Bank aligns its risk appetite with the Parent Bank's vision to become one of the best managed banks in the world, building both customer and shareholder values.



With this global mission & vision, the Bank intends to build and expand its businesses and ensure that it meets its business objectives. Part of the Bank strategy is to maximize its operating efficiency, expand its business scope, strengthen its manpower quality and as well as its asset quality. To achieve the purposes mentioned, the Bank sets its risk appetite in consideration of all the relevant risks and connects it to its overall business vision and objectives.

RISK MANAGEMENT COMMITTEE

The Board organized the Risk Management Committee to ensure that the Bank is able to manage its risk taking activities so that it can position itself for better opportunities.

The RMC 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.

The RMC 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 RMC shall review and approve CTBC Bank (Philippines), 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 RMC 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 taken whenever limits are breached. The Bank's risk management units and the Chief Risk Officer shall communicate formally and informally to the RMC any material information relative to the discharge of its function.

The RMC, shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

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 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 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.

The Chief Risk Officer being directly reporting to the RMC has the following roles and responsibilities:

- To oversee the risk management function and to support the board of directors in the development of risk appetite and risk appetite statement (RAS) of the Bank and for translating the risk appetite into a risk limits structure.
- Ongoing monitoring of the Bank's risk profile and risk exposures with respect to the following:
 - Risk Appetite.
 - Performance vs. Risk Tolerance.
 - Risk trends.
 - Risk concentrations.
 - Allowance for Loan Losses.
 - Key Performance Indicators for risk.
 - Capital Adequacy
- To consider and recommend to the Board for approval, through the RMC, the Bank's Risk Tolerance.
- 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.
- 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 propose enhancements to risk management policies, processes, and systems to ensure that the Bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.
- To provide independent oversight function on credit risk management organization, including, but not limited to, the following:
 - Risk management and control functions that are independent from the credit originating and administration functions.
 - 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.
 - Periodic exposure and exception monitoring by way of the review of credit risk management reports.
 - Review of the validation of Internal Rating System and Credit Scoring Models on a regularly basis.
 - 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 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 of Operational Risk
- To 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.

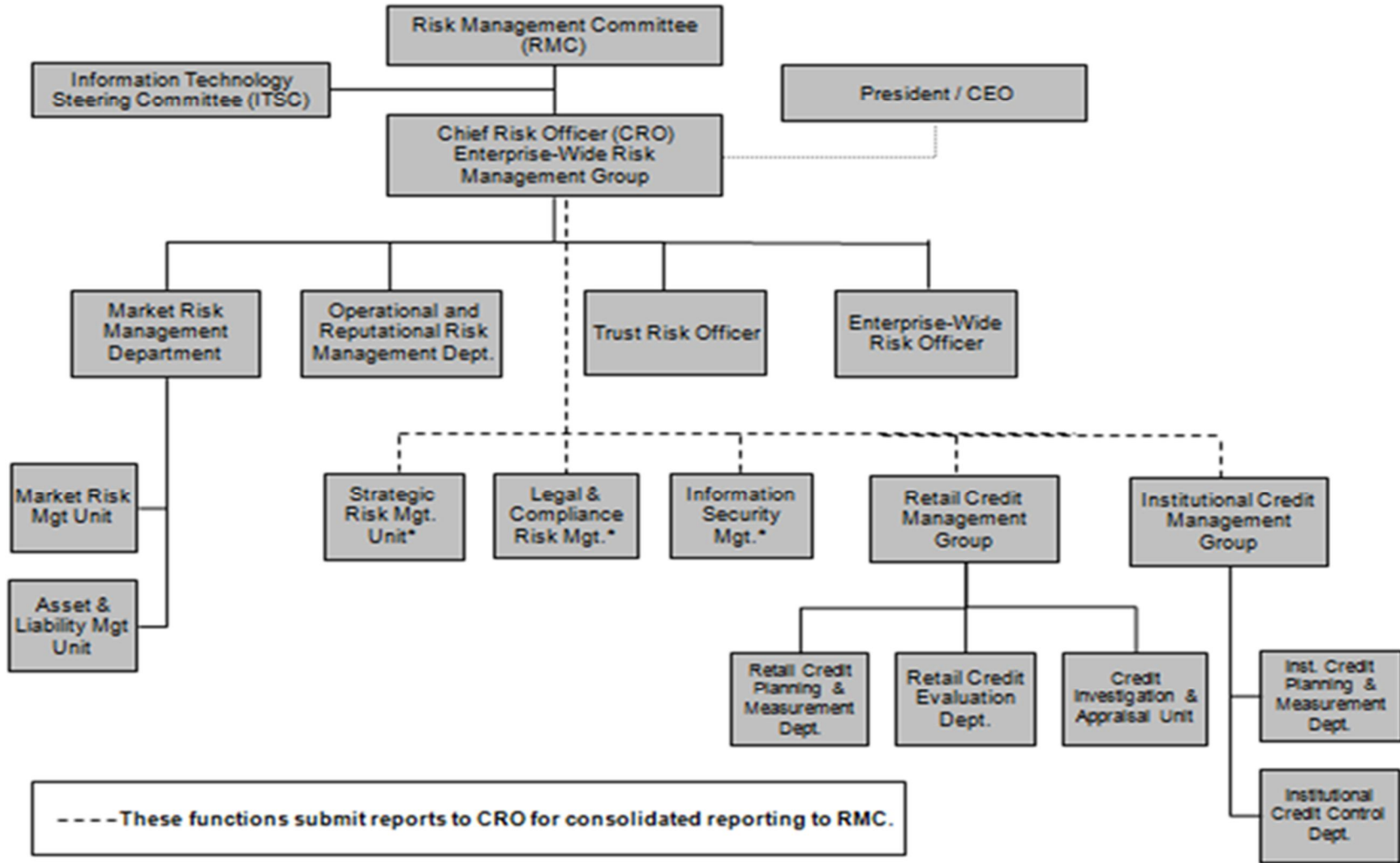
The following are the different Risk Groups governed by the CRO:

- 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 RMC with appropriate recommendations as consolidated by the Department. Also, ORRMD ensures the implementation of all RMC 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.

Chief Risk Officer Reporting Line and Risk Management Organizational Structure Chart



ANNEX 4: CAPITAL STRUCTURE & CAPITAL ADEQUACY

The Bank's capital adequacy ratio (CAR), as of December 31, 2017, is at 19.403%. 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 Php6,794.870MM and Php320.973MM, 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 Php36,674.315MM. 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, 2017

Nature of Item	Calculation	Amount In Millions PHP	
A. Qualifying Capital			
Tier 1 Capital	T1= CET1 + AT1	6,794.871	
<i>Common Equity Tier 1 Capital</i>	CET1	6,794.871	See Breakdown
<i>Additional Tier 1 Capital</i>	AT1	0.000	See Breakdown
Tier 2 Capital	T2	320.973	See Breakdown
Total Qualifying Capital (QC)	T1 + T2	7,115.843	
B. Total Risk Weighted Assets			Minimum Capital Requirement
Total Credit Risk-Weighted Assets	CRWA	32,045.018	3,204.502
Total Market Risk-Weighted Assets	MRWA	834.154	83.415
Total Operational Risk-Weighted Assets	ORWA	3,795.144	379.514
Total Risk-Weighted Assets (RWA)	CRWA + MRWA + ORWA	36,674.315	3,667.432
C. RISK-BASED CAPITAL ADEQUACY RATIO			
Common Equity Tier 1 Ratio	CET1 / Total RWA	18.528%	
<i>of which 12.528 % is Capital Conservation Buffer</i>	CET1 Ratio - 6%		
Tier 1 Capital Ratio	Tier1 / Total RWA	18.528%	
Total Capital Adequacy Ratio	Total QC / Total RWA	19.403%	

ANNEX 4

Capital Structure & Capital Adequacy

Nature of Item	Calculation	YEAR 2017	YEAR 2016
A. Qualifying Capital			
Tier 1 Capital	T1= CET1 + AT1	6,794.871	6,660.612
<i>Common Equity Tier 1 Capital</i>	<i>CET1</i>	6,794.871	6,660.612
<i>Additional Tier 1 Capital</i>	<i>AT1</i>	0.000	0.000
Tier 2 Capital	T2	320.973	265.978
Total Qualifying Capital (QC)	<i>T1 + T2</i>	7,115.843	6,926.590
B. Total Risk Weighted Assets			
Total Credit Risk-Weighted Assets	CRWA	32,045.018	26,576.351
Total Market Risk-Weighted Assets	MRWA	834.154	460.482
Total Operational Risk-Weighted Assets	ORWA	3,795.144	3,681.355
Total Risk-Weighted Assets (RWA)	<i>CRWA + MRWA + ORWA</i>	36,674.315	30,718.188
C. RISK-BASED CAPITAL ADEQUACY RATIO			
Common Equity Tier 1 Ratio	CET1 / Total RWA	18.528%	21.683%
Tier 1 Capital Ratio	Tier1 / Total RWA	18.528%	21.683%
Total Capital Adequacy Ratio	<i>Total QC / Total RWA</i>	19.403%	22.549%

ANNEX 4

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	7,049.290
	(1) Paid-up common stock	2,479.687
	(2) Additional paid-in capital	53.514
	(3) Retained earnings	4,367.064
	(4) Undivided profits	211.239
	(5) Other comprehensive income	-62.214
	(i) Net unrealized gains or losses on AFS securities	-15.588
	(ii) Cumulative foreign currency translation	8.782
	(iii) Retirement benefit	-55.408
A.2	Regulatory Adjustments to CET1 Capital (Minus)	254.419
	(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)	5.172
	(3) Deferred tax assets	233.296
A.3	TOTAL COMMON EQUITY TIER 1 CAPITAL (A.1 minus A.2)	6,794.871
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)	6,794.871
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	320.973
B.2	TOTAL TIER 2 CAPITAL	320.973
C.	TOTAL QUALIFYING CAPITAL (Sum of A.7 and B.2)	7,115.843

ANNEX 4

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	7,049.290	306.851	7,356.141	
	(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	4,367.064	230.375	4,597.439	Difference in the impairment methodology.
	(4) Undivided profits	211.239	76.715	287.954	
	(5) Other comprehensive income	-62.214	-0.239	-62.453	
	(i) Net unrealized gains or losses on AFS securities	-15.588	0.082	-15.506	Reclassification of AFS Securities to Other Investment.
	(ii) Cumulative foreign currency translation	8.782	-0.321	8.461	Cumulative translation for adjustments on FCY accounts to comply with BSP regulatory requirement
	(iii) Retirement benefit	-55.408	0.000	-55.408	
	LESS:				
A.2	Regulatory Adjustments to CET1 Capital	254.419	-238.467	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)	5.172	-5.172	Not Applicable (NA)	Forms part of the balance sheet assets.
	(3) Deferred tax assets	233.296	-233.296	NA	Forms part of the balance sheet assets.
A.3	TOTAL COMMON EQUITY TIER 1 CAPITAL (A.1 minus A.2)	6,794.871	545.319	7,340.189	
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)	6,794.871	545.319	7,340.189	

ANNEX 4

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	320.973	-320.973	NA	Forms part of the balance sheet assets.
B.2	TOTAL TIER 2 CAPITAL	320.973	-320.973	0.000	
C. TOTAL CAPITAL (Sum of A.7 and B.2)		7,115.843	224.346	7,340.189	

ANNEX 5: CREDIT RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2017

1. Breakdown of Credit Risk Weighted Assets

Credit Risk-Weighted Assets	Amount in Millions PHP
On-Balance Sheet Assets	29,856.349
Assets in the Trading Book (Derivatives and Repo-style Transactions)	159.676
Off-Balance Sheet Assets	2,081.258
Total Gross Risk-Weighted Assets	32,097.282
Deductions : General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]	52.265
Total Credit Risk-Weighted Assets	32,045.018

2. Credit Risk Exposures : On-Balance Sheet Assets (In Millions PHP)

EXPOSURE TYPE (In Millions PHP)	Exposures not Covered by CRM	TOTAL RISK WEIGHTED EXPOSURES
Sovereign Exposures	5,867.622	1,006.316
Sovereign Exposures - Non Res	0.000	0.000
Multilateral Development Banks	0.000	0.000
Bank (excluding loans)	888.595	500.389
Interbank Loans		
Interbank Call Loans	0.000	0.000
Interbank Term Loans	4,411.580	1,776.063
Local Government Units	0.000	0.000
Government Corporation	0.000	0.000
Corporate Exposures	20,549.490	20,549.490
Micro, Small, and Medium Enterprise	0.000	0.000
Housing Loans	1,026.890	532.178
Loans to Individuals	4,231.122	4,231.122

EXPOSURE TYPE (In Millions PHP)	Exposures not Covered by CRM	TOTAL RISK WEIGHTED EXPOSURES
Defaulted Exposures		
Housing Loans	3.021	3.021
Loans other than Housing Loans	62.995	94.493
Other Defaulted Exposures	0.000	0.000
ROPA	204.470	306.706
Other Exposures		
Cash on Hand	448.428	0.000
Cash & Other Cash Items	3.946	0.789
Other Assets	855.784	855.784
TOTAL	38,553.943	29,856.349

ANNEX 5

Credit Risk

Breakdown per Exposure Type & Risk Buckets (In Millions PHP)

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	5,867.622	0.000	5,867.622	3,854.991	0.000	2,012.631	0.000	0.000	0.000	5,867.622	1,006.316
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)	888.595	0.000	888.595	0.000	82.072	645.096	0.000	161.427	0.000	888.595	500.389
Interbank Loans											
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	4,411.580	0.000	4,411.580	0.000	3,013.540	449.370	0.000	948.670	0.000	4,411.580	1,776.063
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	21,725.305	1,175.815	20,549.490	0.000	0.000	0.000	0.000	20,549.490	0.000	20,549.490	20,549.490
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	1,056.856	29.966	1,026.890	0.000	0.000	989.425	0.000	37.465	0.000	1,026.890	532.178
Loans to Individuals	4,231.122	0.000	4,231.122	0.000	0.000	0.000	0.000	4,231.122	0.000	4,231.122	4,231.122
Defaulted Exposures											
Housing Loans	3.021	0.000	3.021	0.000	0.000	0.000	0.000	3.021	0.000	3.021	3.021
Loans other than Housing Loans	62.995	0.000	62.995	0.000	0.000	0.000	0.000	0.000	62.995	62.995	94.493
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	204.470	0.000	204.470	0.000	0.000	0.000	0.000	0.000	204.470	204.470	306.706
Other Exposures											
Cash on Hand	448.428	0.000	448.428	448.428	0.000	0.000	0.000	0.000	0.000	448.428	0.000
Cash & Other Cash Items	3.946	0.000	3.946	0.000	3.946	0.000	0.000	0.000	0.000	3.946	0.789
Other Assets	855.784	0.000	855.784	0.000	0.000	0.000	0.000	855.784	0.000	855.784	855.784
TOTAL	39,759.724	1,205.781	38,553.943	4,303.419	3,099.558	4,096.521	0.000	26,786.978	267.466	38,553.943	29,856.349

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 5

Credit Risk

3. Credit Risk Exposures: Assets In the Trading Book (Derivatives & Repo Style Transaction) (In Millions PHP)

EXPOSURE TYPE	NOTIONAL AMOUNT	Credit Equivalent Amount	Risk Weights ^{1/}							TOTAL RISK WEIGHTED
			0%	20%	50%	75%	100%	150%	TOTAL	
<i>Exchange Rate Contracts</i>										
Banks	5,105.748	12.581	0.000	3.110	56.601	0.000	3.927	0.000	63.638	32.850
Corporates	6,352.245	63.304	0.000	0.000	0.000	0.000	126.826	0.000	126.826	126.826
TOTAL	11,457.993	75.884	0.000	3.110	56.601	0.000	130.753	0.000	190.464	159.676

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	527.807	100%	527.807	100%	527.807
Financial standby letters of credit - foreign	1,348.110	100%	1,348.110	100%	1,348.110
Performance Standby LCs – domestic (net of margin deposit) established as a guarantee that a business transaction will be performed	101.808	50%	50.904	100%	50.904
Performance Standby LCs – foreign (net of margin deposit) established as a guarantee that a business transaction will be performed	8.991	50%	4.496	100%	4.496
Trade related guarantees – shipperside bonds/airway bills	3.309	20%	0.662	100%	0.662
Sight LCs - domestic (net of margin deposit)	0.000	20%	0.000	100%	0.000
Sight LCs - foreign (net of margin deposit)	496.567	20%	99.313	100%	99.313
Usance LCs - domestic (net of margin deposit)	5.151	20%	1.030	100%	1.030
Usance LCs - foreign (net of margin deposit)	244.680	20%	48.936	100%	48.936
Committed credit lines for commercial papers issued	0.000	20%	0.000	100%	0.000
Other commitments which can be unconditionally cancelled at any time by the bank without prior notice and those not involving credit risk	4,838.900	0%	0.000	100%	0.000
Spot foreign exchange contracts (bought and sold)	1,348.042				
Late deposits/payments received	0.795				
Inward bills for collection	1,820.499				
Outward bills for collection	0.000				
Trust department accounts	1,666.700				
Items held for safekeeping/custodianship	2.811				
Items held as collaterals	0.001				
Others	0.052				
Total Notional Principal Amount	7,575.323				
TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ASSETS					2,081.258

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 periodically 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.

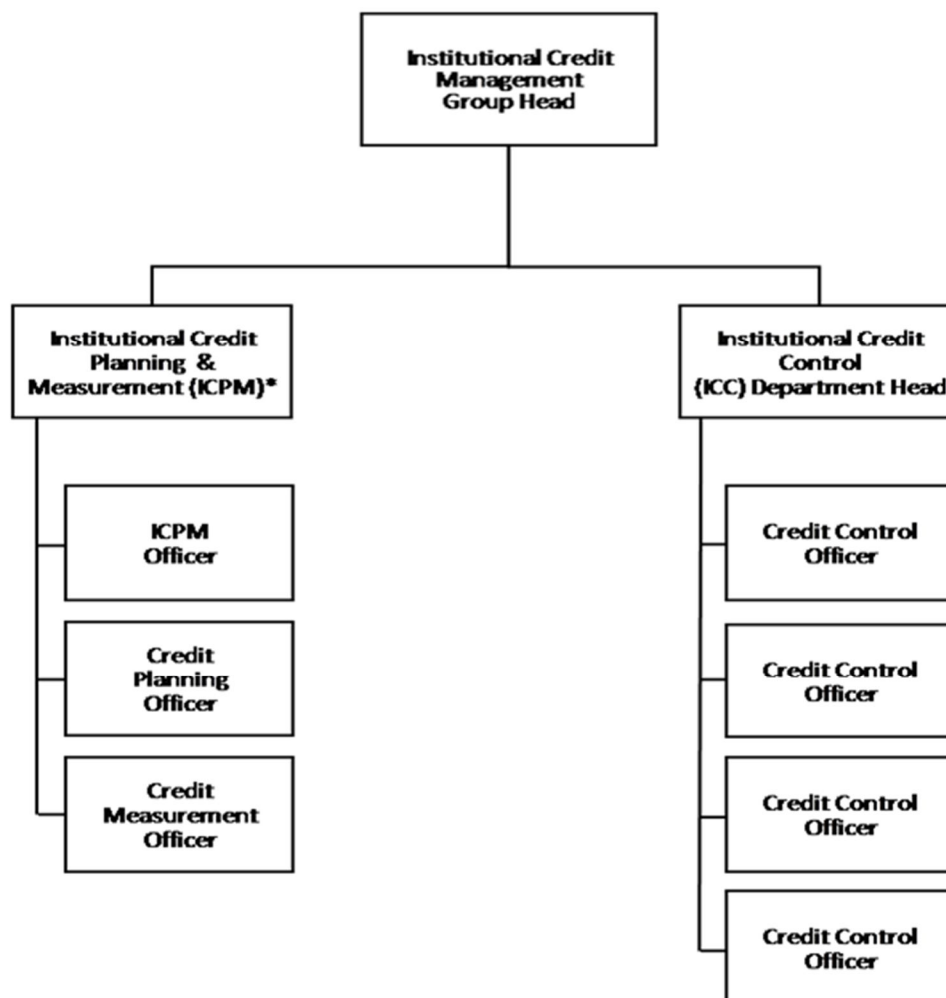
Each credit proposal undergoes an evaluation process in order to determine its acceptability. The evaluation process involves the identification of credit risks after having assessed key factors including, target market/industry, management, appropriateness of credit facilities, terms and conditions, 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
Subinvestment Grades	6	Ba1
	7	Ba2
	8	Ba2*-
	9	Ba3
High Risk Grades	10	B1
	11	B2
	12	B3
	13	Caa1 ~ Ca
Watchlist 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 IBG
- 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 RM or ARMD Special Accounts Officer (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 once a month for an EW account. Depending on the outstanding exposure of an EW1 (b)/EW2/EW3 account, the IBG 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, and 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 Net Worth or Unimpaired Capital)

- The limit ceiling for combined industries under "Monitored Risk" category shall be one hundred percent (100%) of the Bank's Net Worth.

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.

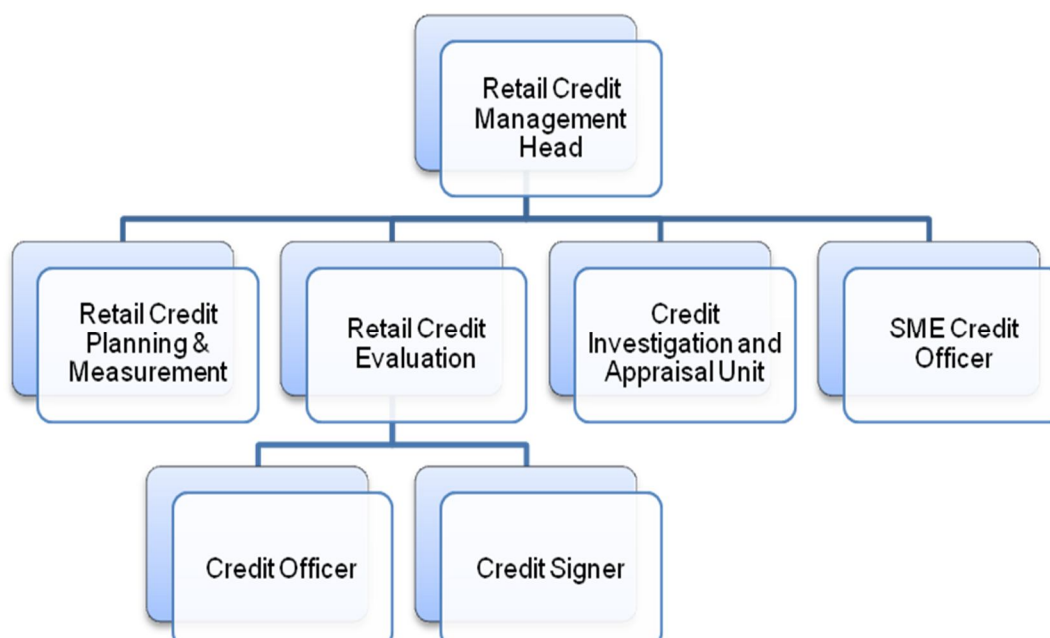
CREDIT RISK COVERING RETAIL LOANS

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 behaviour.
- 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 6: MARKET RISK

I. QUANTITATIVE INFORMATION, as of December 31, 2017

MARKET RISK-WEIGHTED ASSETS

Item	Nature of Item	Amounts in P0.000 million
A.	Using Standardized Approach	
A.1	Interest Rate Exposures	275.859
A.2	Equity Exposures	
A.3	Foreign Exchange Exposures	558.294
A.4	Options	-
A.5	Sub-total (Sum of A.1 to A.4)	834.154
B.	Using Internal Models Approach	
C.	TOTAL MARKET RISK-WEIGHTED ASSETS	834.154

II. QUALITATIVE INFORMATION

I. Strategies & Processes

The Bank's 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 short-term capital gains.

The Market Risk Management Policy and Asset and Liability Management Policy are the cornerstone of risk management of trading and non-trading purpose activities in the Bank. These policies are developed to establish well risk management mechanisms, to facilitate the communication about risk management within the Bank and to provide proper management incorporated with the risk appetite of the Bank.

II. Structure & Organization

- The Board is the highest authority and bears the primary responsibility of market risk management. The Board develops the strategy and culture of market risk management by approved the policy, granted market risk limits and oversight the market risk profile of the Bank.

- The RMC supervises the compliance and accomplishment of the policies and provides guidance on the market risk management mechanism based on the culture developed by the Board.
- CRO, who is independent from executive functions, business line and operations functions, provides independent oversight function on risk management.
- Market Risk Management Department (MRMD) performs the second line of risk defense by designing and executing appropriate risk identification, measurement, monitoring, controlling 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.
- ✓ 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 7: OPERATIONAL RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2017

OPERATIONAL RISK Under Stressed Scenario	In Million PHP
Total Residual Risk	93.29
TOTAL CAPITAL CHARGE	116.61
OPRISK WEIGHTED ASSET Scenario Based	1,166.12
OPRISK WEIGHTED ASSET Based on BIA	3,795.14
FINAL OPRWA BASED ON BIA (The higher b/n the Scenario based or the BIA)	3,795.14

Event Type (per Basel)	TOTAL PER EVENT TYPE	
	Gross Risk Exposure (In Million PHP)	Residual Risk Exposure (In Million PHP)
Internal Fraud	38.96	5.46
External Fraud	157.96	28.82
Employee Practices and Workplace Safety	52.79	11.38
Clients, Products and Business Practices	22.85	4.46
Damage to Physical Assets	13.84	1.74
Business Disruption and System Failures	43.58	15.19
Execution, Delivery and Process Management	268.15	26.24
TOTAL	598.13	93.29
ADJUSTED CAPITAL CHARGE		116.61
OPRISK WEIGHTED ASSET Scenario Based		1,166.12
OPRISK WEIGHTED ASSET Based on BIA		3,795.14

B. QUALITATIVE INFORMATION

I. Strategies & Processes

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.

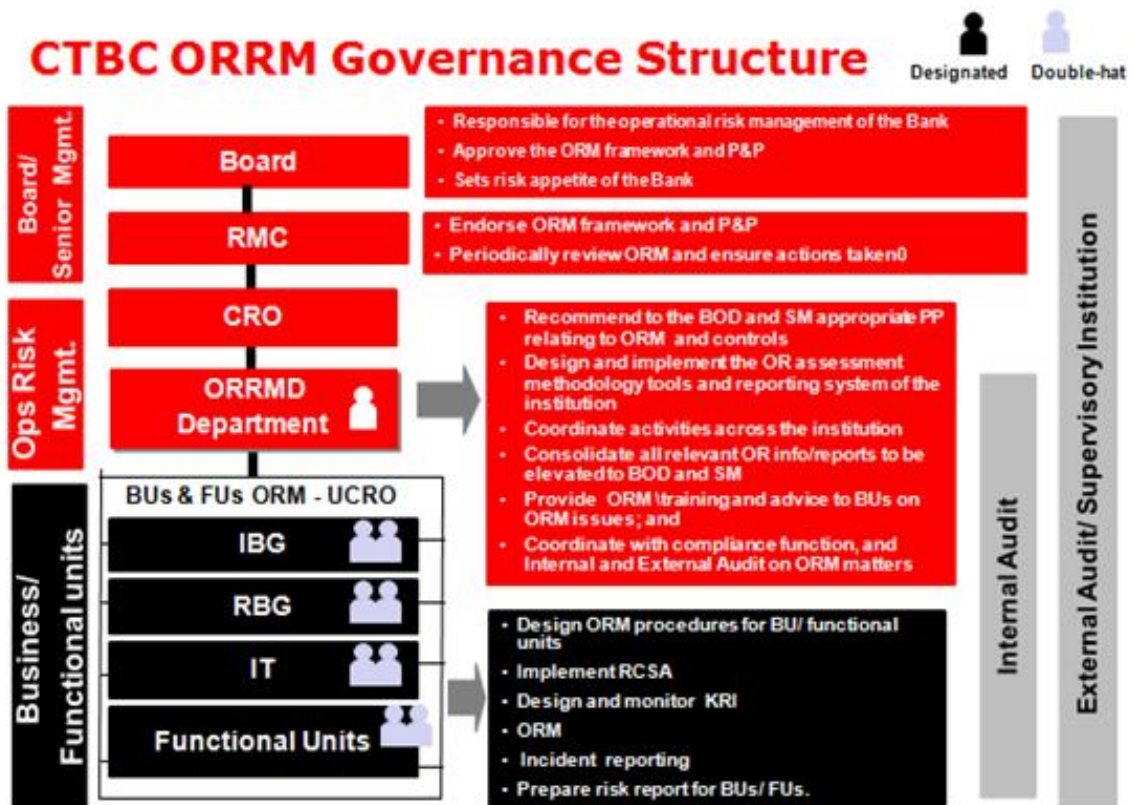
The Bank's Operational Risk Process is illustrated as follows:



The business or functional units are the first line of risk management defence. As such, they have the day-to-day responsibility and accountability of executing processes and controls to ensure that Bank risks are managed well and kept within acceptable levels.

As second line of risk defence, Operational and Reputational Risk Management Function is responsible for establishing, overseeing and supporting CTBC's Operational Risk Management ("ORM") framework. Among its key responsibilities include policy recommendation, coordination of risk activities, design ORM methodologies, tools, and reporting system, and monitoring and reporting of incidents.

The Internal Audit Function 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.



III. Scope & Nature of Risk Reporting and Measurement Systems

Operational and Reputational Risk Management Department (ORRMD) aims for an environment with sound risk management. In order to achieve this, ORRMD shall make use of various operational risk assessment tools in identifying, measuring, and understanding the operational risks inherent to the bank. The tools shall also help ORRMD establish the operational risk universe of the bank which may be used as basis in developing and implementing the necessary controls to mitigate the risks. Proper monitoring of the risks will also be done to determine the effectiveness of controls and actions taken.

ORRMD ensures that all information provided by the units through the risk assessment tools will be verified and accurately recorded in the operational risk templates.

The following are the ORM activities with corresponding assessment tools to facilitate the conduct of said activities:

- a. Outsourcing Risk Assessment Kit is used to facilitate conduct of outsourcing risk assessment prior to engaging/re-engaging new and existing service providers.
- b. Outsourcing Key Control Self-Assessment (OKCSA) template is used in conducting the annual self-assessment of business and functional units on the effectiveness of their implementation of key controls for outsourcing risk. Risk and Control Self-Assessment (RCSA) template is the tool used by business and functional units in identifying, assessing, and mitigating key risks in their respective scope of operations.
- c. Key Risk Indicator (KRI) template is used to record and monitor local and Parent Bank required KRIs. These are
- d. Operational Risk Self-Assessment (ORSA) and Reputational Risk Self-Assessment (RRSA)
- e. Incident Reporting Template and Database

Results of operational risk assessment and monitoring activities are reported to the Operations Committee during its monthly sessions and to the Risk Management Committee during its bi-monthly meetings.

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

IV. Strategies for Risk Mitigation

The process of risk mitigation is embedded within the risk management process as well as in the incident management process

- a. In the risk management process, upon identification of a risk, business and operational units are required to identify existing controls and assess their effectiveness. Depending on the risk rating assigned, business and functional units decide on an action plan to remediate the risk. Persons or units responsible and target completion dates are determined for each action plan to facilitate monitoring.
- b. In the incident management process, when root cause of the incident is identified, two action plans are drafted by the business or functional unit. One action plan is aimed at immediately addressing the incident and stopping further damage. The other one is a preventive action plan to avoid similar events from occurring again.

The following are the risk mitigation strategies adopted by business and functional units of the Bank. Risk mitigation to be employed shall be dependent on the risk assessment conducted.

Strategy	Description	Examples
Mitigate	<ul style="list-style-type: none"> • Reduces the probability of a risk and/or the impact that results from the occurrence of a risk • Aims at the implementation of controls that reduces the effects of risk occurrences, while not completely alleviating them 	<ul style="list-style-type: none"> • Standardised processes • Formalised exception handling • Collaboration, checks, and balances
Avoid	<ul style="list-style-type: none"> • Eliminates the probability of a specific risk before it materializes • Normally realized by trading the risk for other risks that are less threatening or easier to deal with 	<ul style="list-style-type: none"> • Process redesign • Discontinuance of a product or service offering
Transfer	<ul style="list-style-type: none"> • Also called risk sharing • Shifts risks or the consequences caused by the risk from one party to another 	<ul style="list-style-type: none"> • Process outsourcing • Purchase of insurance policies
Accept	<ul style="list-style-type: none"> • Adapts to the unavailability of the risk • A risk contingency plan is required in this strategy 	<ul style="list-style-type: none"> • Adaption of regulatory requirements

ANNEX 8: OTHER PILLAR II RISKS

A. QUANTITATIVE INFORMATION, as of December 31, 2017

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, and 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	551	Based on Economic Value of Equity (EVE) Approach
Compliance	797	Based on Compliance Risk Self-Assessment Survey
Reputational	173	Based on Reputation Risk Self-Assessment Survey
Legal	463	Based on Legal Risk Self-Assessment Survey
TOTAL RWA	1,984	

ANNEX 9: LIQUIDITY RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2017

Maximum Cumulative Outflow

in USD millions

	CCY	Soft limit	Board Limit	ALCO Limit	Dec 17
Liquidity	LCY	7D MCO		(20)	61
		1M MCO		(50)	18
		2M MCO		(30)	54
	FCY	7D MCO		(130)	52
		1M MCO		(160)	27
		2M MCO		(160)	5
	Consolidated	7D MCO	(80)		113
		1M MCO	(95)		45
		2M MCO	(95)		58

B. QUALITATIVE INFORMATION

I. Strategies & Processes

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due with incurring of unacceptable losses or costs. The qualitative risk appetite of the Bank is defined as constantly maintaining a balanced asset and liability structure, diversifying funding sources, establishing stable deposit base and prudently arranging cash flows to ensure the Bank is capable of sustaining business growth and meet its obligations under normal and stressed liquidity scenarios. Base on this, the Bank set quantitative liquidity limits as 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 the Bank over depends on short term unstable funds source 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 the mismatch of maturity tenors between cash inflow and outflow because the Bank over depends on short-term funds to finance long-term assets, which may cause liquidity risk. The establishment of MCO limits should take gap structure, deposit stability, deposit rollover ratio and the Bank's borrowing flexibility into consideration.

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 trade-offs, 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 Board of Directors is responsible for approving policy of asset and liability management to establish the control framework and culture which could incorporate the risk appetite of the Bank into control mechanisms.
- The Risk Management Committee is a Board-level committee. It is in charge of to implement risk management policies and strategies approved by the Board and evaluate the magnitude, direction and distribution of risks across the Bank.
- 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 coverage ratio and composition: This ratio, together with the composition and tenor of liquid assets, promote a bank shall maintain over a thirty calendar day horizon, an adequate level of unencumbered high-quality liquid assets that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to offset the net cash outflows it could encounter under a liquidity stress scenario.

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.

ANNEX 10: INTEREST RATE RISK IN THE BANKING BOOK

QUANTITATIVE INFORMATION, as of December 31, 2017

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

in PHP		2017									
Currency	Increase in bps	Sensitivity of net Interest Income			Sensitivity of Equity						
		1M	3M	6M	1Y	2Y	5Y	7Y	10Y Up	Total	
PHP (in 000s)	15	3,653	(571)	(568)	5,516	(1,450)	(5,885)	(930)	-	-	(3,887)
	20	4,870	(761)	(757)	7,352	(1,932)	(7,842)	(1,238)	-	-	(5,177)
	25	6,088	(951)	(946)	9,187	(2,414)	(9,795)	(1,546)	-	-	(6,465)
USD (in 000s)	15	2,176	(587)	439	3,542	215	2	-	(2,606)	(17,155)	(16,150)
	20	2,901	(783)	585	4,721	287	3	-	(3,468)	(22,793)	(21,448)
	25	3,627	(979)	731	5,900	359	4	-	(4,326)	(28,392)	(26,704)
in PHP		2017									
Currency	Increase in bps	Sensitivity of Net Interest Income			Sensitivity of Equity						
		1M	3M	6M	1Y	2Y	5Y	7Y	10Y Up	Total	
PHP (in 000s)	15	(3,653)	572	569	(5,528)	1,454	5,911	936	-	-	3,913
	20	(4,870)	763	759	(7,374)	1,939	7,887	1,250	-	-	5,223
	25	(6,088)	954	949	(9,221)	2,425	9,866	1,564	-	-	6,536
USD (in 000s)	15	(2,176)	588	(440)	(3,550)	(216)	(2)	-	2,637	17,523	16,540
	20	(2,901)	785	(586)	(4,735)	(288)	(3)	-	3,523	23,447	22,142
	25	(3,627)	981	(733)	(5,921)	(360)	(4)	-	4,412	29,414	27,789

I. Strategies & Processes

The Bank's risk appetite and tolerance are set by its set of interest rate risk limits. IRRBB risk limits are tools 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.

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 trade-offs 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 Board of Directors is responsible for approving policy of asset and liability management to establish the control framework and culture which could incorporate the risk appetite of the Bank into control mechanisms.
- The Risk Management Committee is a Board-level committee. It is in charge of to implement risk management policies and strategies approved by the Board and evaluate the magnitude, direction and distribution of risks across the Bank.
- 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.

¹ Non-trading purpose refers to a position not built for the purpose of earning capital gains

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 loan payment and non-maturity deposits are as follows

	PHP	*USD and other FCY
Current Loans	Repricing date	Repricing date
Customer Loans		
Personal Loans	By half of Remaining life to maturity	Not applicable
Mortgage Loans	By remaining days to next repricing date	Not applicable
Corporate Loans	By remaining days to next repricing date	By remaining days to next repricing date
Restructured Loans	By remaining days to next repricing date	By remaining days to next repricing date
Trade Balances	By remaining days to next repricing date	By remaining days to next repricing date

	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 (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.

3. Stress Test:

Stress test evaluates the appropriateness of exposure of the Bank under some stressed conditions. 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, 2017.

Repricing Risk - UPWARD

PHP

Rate Change	Δ EVE
in bps	in USD thousands
300	(1,464)
200	(997)
Base	(5)

FCY

Rate Change	Δ EVE
in bps	in USD thousands
300	(5,197)
200	(3,735)
Base	(22)

Repricing Risk - DOWNWARD

PHP

Rate Change	Δ EVE
in bps	in USD thousands
300	1,670
200	1,089
Base	(5)

FCY

Rate Change	Δ EVE
in bps	in USD thousands
300	8,387
200	5,138
Base	(22)

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 11: 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.

The Bank's Compliance Department is independent in its function that identifies, documents and assesses the compliance risks associated with the Bank's business activities, including new products and business units. 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 risk areas through identification of the roles and responsibilities on compliance regulatory requirements within the line, operating and business units of the Bank and its immediate resolution in cases of the possible breaches.

II. Structure & Organization

Compliance Department is composed of five (5) compliance associates and five (5) 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 the Unit Compliance and Risk Officers (UCROs) 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.

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 12: REPUTATION RISK

I. Strategies & Processes

Reputational Risk Management Process

Reputational Risk is a risk of loss resulting from an institution's reputation in lost revenue; increased operating, capital or regulatory costs; or destruction of shareholder value, due to negative information, public opinion or publicity, regarding an institution and its business practices. .

At CTBC Bank Philippines, 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.

The following describes the reputational risk management process of CTBC Bank Philippines.

1. CTBC Bank Philippines established a Reputational Risk Management Policy which is a document that covers the general policies to be observed in the proper management of Reputational Risks of CTBC Bank Philippines. This will help the Bank to identify, assess, control and mitigate possible reputational risks.
2. Identification, Assessment, Management and Control – To facilitate the identification, assessment, and management of reputational risks, CTBC Bank established a self-risk assessment mechanism, subject to regular review to assess its effectiveness and appropriateness. Such risk assessment mechanisms are the Risk and Control Self-Assessment (discussed under Annex 6 Operational Risk) and the Reputational Risk Self-Assessment (RRSA). The RRSA is a quarterly exercise that allows various units, departments and groups of the Bank to identify and report their respective reputational risks. Consolidation and evaluation of the survey results are done by the Operational and Reputational Risk Management Department (ORRMD). During the scenario analysis, external data are analysed taking into account institution-specific business environment and internal control factors which will include historical and plausible risk events that may happen to the Bank. The scenario-based testing approach combines quantitative data and qualitative data in the analysis process. Results of the RRSA are reported to Management as part of regular ICAAP updates in the Risk Management Committee (RMC)
3. Monitoring and Reporting
 - In order to monitor and control reputational risk, early warning indicators of any changes to reputational risk shall be analysed and evaluated for improvement, and reported to Management if necessary.

- The information of internal reputational events and the result of the self-risk assessment shall be regularly analysed for monitoring, management, and control of reputational risk.
 - The identification and assessment and the result of monitoring, management and control of reputational risk shall be regularly reported to Management so as to enable him to grasp the status of reputational risk and to take the necessary action.
 - In order to mitigate the loss of reputational risk, set-off and minimizing solution shall be positively pursued and implemented only after the assessment of cost effectiveness.
4. 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.
 5. Independent Review and Audit – CTBC Bank shall ensure that independent reviews and audits, whether as a review dedicated to reputational risk or as part of a wider review of risk management, are conducted regularly so as to provide assurance and confidence that controls and actions to manage risks affecting reputation are operating as intended.
 6. Incident Handling- CTBC Bank employs an incident management process for identifying, reporting, and mitigation of reputational risk incidents. The same process is used for the management of operational risk events. A reputational risk loss database is maintained by ORRMD to manage and track said events.

Crisis Management

CTBC Bank established a crisis management framework that provides guidance and direction to the Bank’s management and staff when dealing with crisis. Key elements of the framework include approach, scope, crisis management plans, preparations and action checklists, contact lists, and draft spiels and press statements.

Stress Testing

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, Business and Functional Units determine and assess maximum loss exposures.

II. Structure & Organization

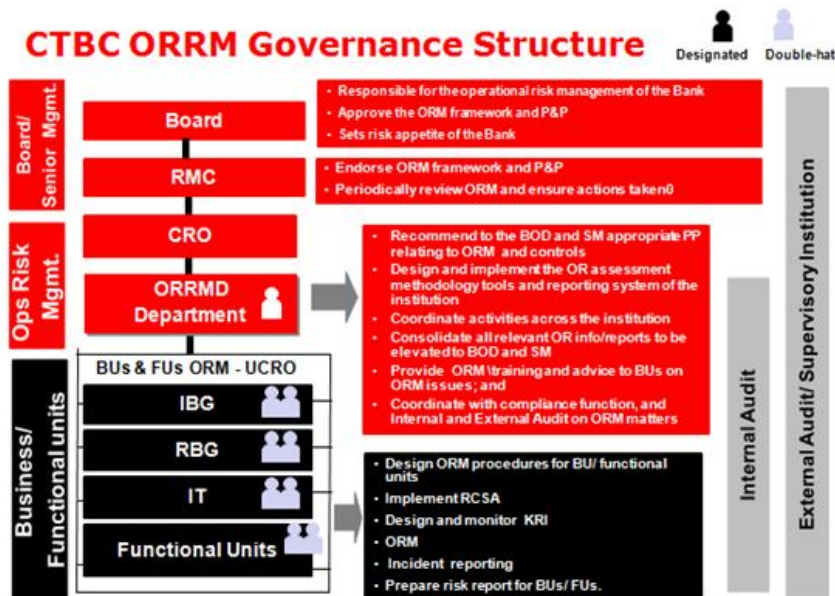
CTBC Bank, Philippines has established a framework of roles and responsibilities consistent with the generally recognized principles of sound Operational Risk Management practice. Ultimate responsibility for the appropriate management of Operational Risk rests with the CTBC Bank Philippines Board of Directors (BOD). The BOD established the Risk Management Committee (RMC) which is responsible for the development and oversight of the Bank's risk management program and for the provision of general direction and risk philosophy of the Bank.

On a management level, the Operations Committee was established 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.

The business or functional units are the first line of risk management defence. As such, they have the day-to-day responsibility and accountability of executing processes and controls to ensure that Bank risks are managed well and kept within acceptable levels.

As second line of risk defence, Operational and Reputational Risk Management Function is responsible for establishing, overseeing and supporting CTBC's Operational Risk Management ("ORM") framework. Among its key responsibilities include policy recommendation, coordination of risk activities, design ORM methodologies, tools, and reporting system, and monitoring and reporting of incidents.

The Internal Audit Function 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.



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.

ORRMD with the assistance of other functional and business units 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 Management.

Key results and findings from reputational risk management activities are reported in the Operations Committee and in the Risk Management Committee as part of regular reporting to Management.

IV. Strategies and Processes for Mitigating Risks

For an effective reputational risk monitoring and management infrastructure, CTBC Bank Philippines 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.

To cover areas and reputational events which are assessed to be difficult to handle or costly to eliminate, special handling is needed. Together with the ORRMD, the Marketing Communications and Services Department (MCSD), with the guidance from the Top Management, will assist in addressing issues that require PR handling. Client correspondences and standard spiel, media interviews, press statements if not emanating from MCSD shall be pre-cleared with MCSD.

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 13: 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.

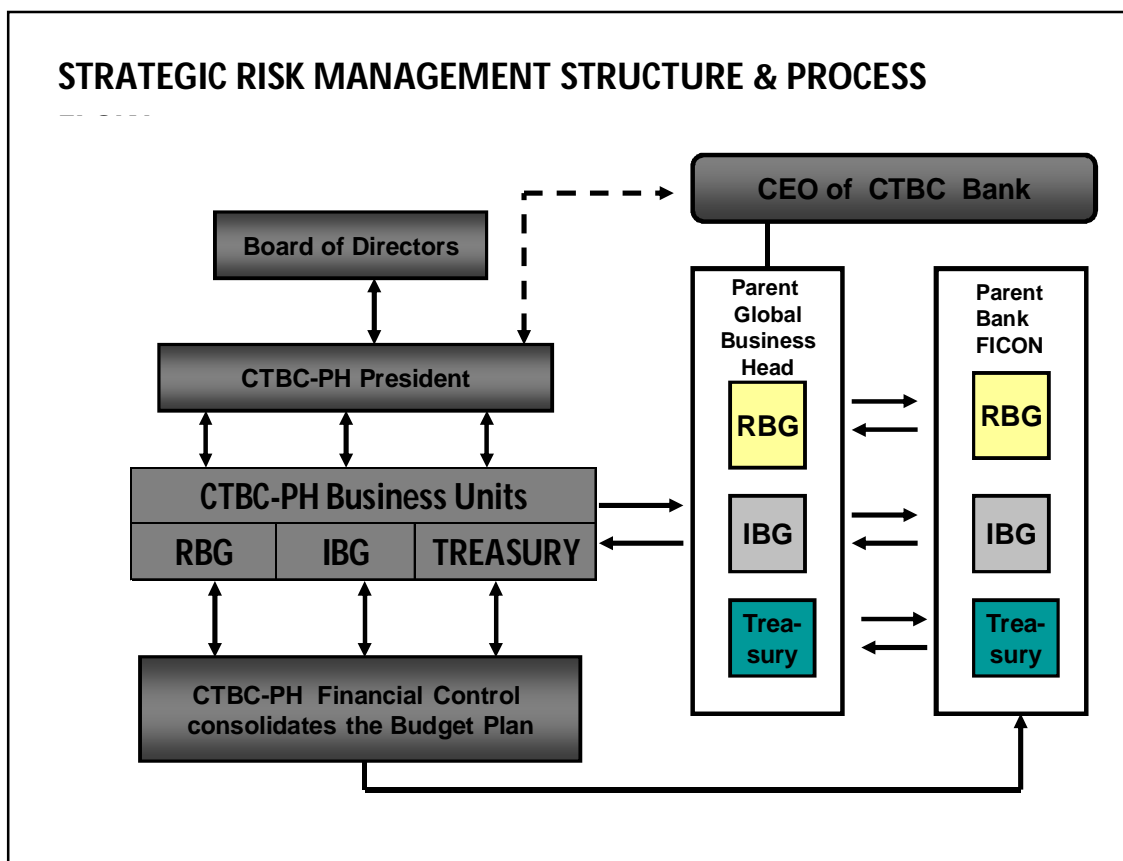
I. Strategies & Processes

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, analyse 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, and Retail Banking Group. Annually, these business segments draw up a business plan that is endorsed 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 analyse 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 14: 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

Legal risks include the potential for the Bank to suffer a financial loss due to non-existent, incomplete, incorrect and unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. It also includes the possibility or potential for financial loss arising from the uncertainty of the legal proceedings. It is considered as one of non-quantifiable risks not subject to specific numerical measurements, albeit in terms of litigation once a case is filed for whatever reason and nature the bank is exposed to possible adverse judgment, as well as legal expenses.

Legal risks, while belonging to non-quantifiable risks, require management's attention. Although unpredictable, non-quantifiable risk may cause severe impact on the Bank's profit and loss. These risks are mitigated by developing a strong "control culture" and an organizational structure that is risk-aware and with effective internal control system that continually monitors and updates processes and procedures. This risk is closely related to credit risk as it most often involves legal problems with counterparties to bank's transactions. Also, it is likewise related to other non-quantifiable risks that have to be assessed, such as

fiduciary, reputational risk and regulatory risk which are equally managed by responsible departments in the bank.

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 15: List of Major Stockholders, as of December 31, 2017

Name of Stockholders	Nationality	Percentage of Stockholdings	Voting Status one (1) vote per share
CTBC BANK CO., LTD.	Taiwanese	99.60%	246,495,812
MA. ASUNCION M. ORTOLL	Filipino	0.10%	241,551
ALFONSO LAO	Filipino	0.07%	185,150
ARLENE RAVALO ULANDAY &/OR BETHEL ANN RAVALO &/OR ELIODORO RAVALO	American	0.03%	75,000
CHEN LI MEI	Taiwanese	0.03%	65,992
BETTINA V. CHU	Filipino	0.01%	29,095
MARTIN M. ORTOLL	Filipino	0.01%	26,838
JOSE ANTONIO M. ORTOLL	Filipino	0.01%	26,838
CARLOS M. ORTOLL	Filipino	0.01%	26,838
MA. MARTA M. ORTOLL	Filipino	0.01%	26,838
MA. BEATRIZ ORTOLL- MANAHAN	Filipino	0.01%	26,838
MA. TERESA ORTOLL- GARCIA	Filipino	0.01%	26,838
MA. ELENA M. ORTOLL- MIJARES	Filipino	0.01%	26,838
REGAN C. SY	Filipino	0.01%	26,450
PCD NOMINEE CORP. (FILIPINO)	Filipino	0.01%	13,795

ANNEX 16: ADDITIONAL INFORMATION ON PER COMMON SHARE DATA

In PHP	As of December 31, 2017	As of December 31, 2016
Total Equity	7,340,189,331	7,129,153,350
no. of shares	247,968,731	247,968,731
Book value per share	29.60	28.75

ANNEX 17: 2017 AUDIT COMMITTEE ACCOMPLISHMENT REPORT

1. Conducted six committee meetings in 2017 and covered the periodic Internal Audit, Compliance, external audit and regulatory reports as follows:
 - February 21, 2017
 - April 24, 2017
 - June 21, 2017
 - September 12, 2017
 - October 25, 2017
 - December 13, 2017

2. Reviewed the bank's performance evaluation results on RG Manabat & Co. relative to their examination of the bank's 2016 financial statements and discussed with the engagement partner the identified areas of improvement.

3. Selected and appointed RG Manabat & Co. as the Bank's 2017 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, 2017.

4. Reviewed the Bank's 2016 audited financial statements as certified by RG Manabat & Co. including the financial highlights, analysis of revenue and salaries per group and comparison of the bank's total assets, total loans, NPL and loan asset ratio with peer banks, audit and accounting issues and its resolutions and preliminary list of management letter comments. Endorsed the 2016 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 2017 financial statements including the new accounting standards on financial instruments, revenue from contracts with customers and leases (PFRS # 9, 15 and 16) regulatory updates, and financial highlights with peer banks.

6. Closely monitored the status of Audit Committee directives to bank management including the long outstanding Committee directives on the completion of 2016 independent compliance testing, AML system issues and inventory and reconciliation of the bank's IT assets.

7. Reviewed all reports issued by Internal Audit, Parent Bank auditors, Compliance and regulators including the replies and action plans of the bank to address the findings and directives of BSP in its 2017 Report of Examination.

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 2017 rating of "Satisfactory" (the 1st tier in the new 4-tier rating system) from the Parent Bank.
9. Key risk areas and issues noted by Internal Audit (e.g. AML and KYC, independent compliance testing, weaknesses of TCS Compliance System and watchlist database, risk tagging inconsistencies between the deposit and AML systems, inappropriate override capability in Bancslink Deposit System, IT systems development testing and documentations, PADS purchasing module not fully utilized, timely renewal of corporate loan credit facilities and preparation of loan review reports and account planning for problem loans, inadequate evaluation in credit reports of the borrower's business and financial risks with corresponding mitigation plans, and adherence to directives issued by the Credit Committee) were elevated to the Board of Directors or endorsed to management for resolution of these issues.
10. Provided instructions and recommendations to bank management on the following areas:
 - a. Improve the bank's AML processes including periodic review of whitelist accounts, reasonable justification and adequate documentation for the closure of AML system alerts, establish mechanism in closing AML transaction alerts, and improvement of the AML Committee's self-assessment process;
 - b. Improve operational, credit, and IT risk management and internal control systems of certain units and branches of the bank;
 - c. Establish ownership, accountability and impose appropriate sanctions for violation of major bank policies and to ensure timely resolution of audit findings; and
 - d. Minimize and reduce the number of target date extensions of outstanding audit findings and ensure that full resolution of critical findings and key risk areas are prioritized.
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. Directed bank management to immediately implement necessary action and improvement plans to effectively address the findings raised by the Parent Bank auditors in 2017 to improve the bank's 2018 rating and to avoid recurrence of the repeat findings on independent compliance testing, AML transaction alerts disposition and retail product pricing review.
13. Regularly reviewed the updates on AML statistics on alerts, covered (CTR) and suspicious transactions (STR) and latest AML rules and updates.

14. Reviewed and endorsed/approved the following updated charters, manuals and policies:

- Internal Audit Manual
- Internal Audit Charter
- Compliance Charter
- Money Laundering & Terrorist Financing Prevention Program
- CTP Accounting Policy
- Compliance Testing and Risk Assessment Manual
- Compliance Manual
- Unit Compliance & Risk Officers and Sub-UCRO Guideline
- Updated Travel to Taiwan Guideline
- Related Party Transaction Policy Manual
- Crimes and Losses Policy Manual
- CIF Review Committee Charter

15. Reviewed Internal Audit's risk assessment methodology and overview of its bankwide risk assessment evaluation which was included in the preparation of the 2017 audit plan.

16. Reviewed the Compliance and AML Training Plans and Independent Compliance Testing Plan for 2017.

17. Issued various directives to management on the AML consultant project and proposed AML system upgrade.

18. Non-executive members of the Committee regularly met separately with the Internal Audit Head and Compliance Officer during the year.

19. Below is the attendance record of the Committee members for 2017.

Committee Members	No. of Meetings Held	No. of Meetings Attended
Edwin Villanueva	6	6
Ng Meng Tam	6	6
Frank Shih	5	5
Nick Huang	1	1

ANNEX 18: AMLA GOVERNANCE & CULTURE

CTBC Bank (Philippines) Corp. as a covered person is committed to assist the government in the fight against Money Laundering (ML) and combat Terrorist Financing (TF) by operating an effective risk-based ML/TF prevention and detection framework. In doing so, the Bank's aim is to actively manage and mitigate compliance, business, reputational, legal and concentration risks arising from ML/TF activities within and across the entire CTBC Bank (Philippines) Corp.

As such, the Bank has adopted the Money Laundering and Terrorist Financing Prevention Program (MLPP). This manual lays down regulatory reference, guidelines and practices as well as internal implementation to help ensure that risks associated with money-laundering such as counterparty, reputation, operational, and compliance risks are identified, assessed, monitored, mitigated and controlled, as well as to aid in the effective implementation of the anti-money laundering laws and regulations, to the end that the Bank shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

Objectives

This MLPP sets forth the following:

- To provide relevant updated provisions and guidelines of the Anti-Money Laundering Act, its implementing Rules and the Updated AML Rules and Regulations of the Bangko Sentral ng Pilipinas (BSP), Anti-Money Laundering Council (AMLC) and Global AML / CFT Policy of the parent bank.

- To align and/or establish specific policies and procedures with the requirements of AML in ensuring that the Bank complies with the duties and responsibilities of the conduct of KYC procedures, record retention and required submission of Covered Transaction Reports (CTR) and Suspicious Transaction Reports (STR) to AMLC.

- To give clear appreciation of the Bank's role and the responsibilities of the Board of Directors, senior management, officers and employees in ensuring compliance with the Anti-Money Laundering Act and Countering Terrorist Financing rules and regulations.

Declaration Policy

The Bangko Sentral ng Pilipinas (BSP) adopts the policy of the State to (a) protect the integrity and confidentiality of bank accounts and ensure that the Philippines, in general, and CTBC Bank (Philippines) Corp., in particular, shall not be used,

respectively, as a money laundering site and conduit for the proceeds of an unlawful activity, and (b) protect life, liberty and property from acts of terrorism and to condemn terrorism and those who support and finance it and reinforce the fight against terrorism by criminalizing the financing of terrorism and related offenses.

Key Basic Principles and Policies to Combat Money Laundering and Terrorist Financing

In line with the declaration of policy, the Bank adopts the following key principles:

1. The Bank, its stockholders, directors, officers and staff consider it their collective duty to deliver services to the Bank's customers in a manner that is socially acceptable and within the requirements of law. The Bank understands its role in preventing the proceeds of any illegal activity from being used in money laundering activities, and in detecting covered/ suspicious transactions, as defined under the AMLA.
2. All business and operating units shall cooperate and provide assistance to the appropriate supervising authority/ies in money laundering investigations and prosecution of cases, when filed in a competent court. Supervising authority/ies refers to the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission ("SEC", "Commission"), and the Insurance Commission (IC).
3. Senior Management and the Board of Directors shall ensure strong support of all programs to be established for the prevention and detection of money laundering activities. It shall conduct an annual information-training program about the latest developments in money laundering and its prevention/detection techniques. The Bank shall ensure inclusion of anti-money laundering training in the initial training programs offered to all new hires, including contractual and probationary employees. AML and CFT trainings should be specific to particular classes of employees and their job responsibilities. It is likewise the Bank's responsibility to monitor and ensure that personnel from outsourced services (particularly those in marketing and those having dealings with clients requiring knowledge of KYC policies and procedures) have adequate, effective and updated AML training.
4. The prevention of money laundering practices from entering the organization shall be based on the following principles:
 - Ethical Conduct
The Bank shall ensure that business is conducted in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system.

- **Compliance with laws**
The Bank shall comply fully with the rules and regulations and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance. Prudence should be observed so that service is not provided where there is a good reason to believe that transactions are associated with money laundering activities and terrorist financing and acts.

- **Risk Management System**
The Bank shall adopt and effectively implement a sound AML and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;

- **Know Your Customer (KYC)**
The Bank shall endeavour to know sufficiently its customer at all times and obtain competent evidence of the customer's identity and have effective procedures for verifying the bona fide identity of new customers. The Bank shall ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the Bank by himself or otherwise;

- **Know Your Employee (KYE)**
The Bank adopts an adequate Know Your Employee process in screening and recruitment as stated in the Bank's internal policy Recruitment and Screening Policy by Human Resources and Administrative Group (HRAG).

- **Cooperation with law enforcement agencies**
The Bank shall fully cooperate with the Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA, as amended, and its Revised Implementing Rules and Regulations (RIRR), and with law enforcement agencies within the legal constraints relating to customer confidentiality.

This includes taking appropriate measures allowed by law if there are reasonable grounds for suspecting money laundering.

- **Policies, procedures and training**
The Bank shall adopt policies consistent with the principles set out in appropriate guidelines and ensure that staff, wherever located, are informed of these policies and adequately trained in matters covered herein. To promote adherence to

these principles, the Bank shall implement specific procedures for customer identification, record keeping and retention of transaction documents and reporting of covered and suspicious transactions.