CTBC BANK
中國信託銀行

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

TO ALL STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the annual meeting of the stockholders of **CTBC BANK (PHILIPPINES) CORP.** will be held on **July 5, 2018, Thursday, at 9:30 AM at 5th Floor, Function Room, The Ascott, 5th Avenue corner 28th Street, Bonifacio Global City, Taguig City 1634, Philippines.**

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
JUN 04 2018
MARKET REGULATION DEPT.
BY: Cline TIME: 2:10

Agenda

The Agenda for the meeting will be as follows:

1. Call to Order
2. Certification by the Corporate Secretary on the Sending of Notices and Existence of a Quorum
3. Approval of Previous Minutes:
   a. Annual Stockholders' Meeting of 22 June 2017
4. Chairman's Address
5. President's Report and Approval of the Annual Report
6. Submission of Audited Financial Statements of the Bank and of the Trust and Investment Services Department as of 31 December 2017
7. Ratification of All Acts, Decisions and Proceedings of the Board of Directors, Committees and Management since the last Annual Meeting
8. Approval of the following amendments to the Articles of Incorporation and By-Laws.
   a. ARTICLES OF INCORPORATION
      ARTICLE SIXTH – Increase in the number of Directors from 7 to 8
   b. BY-LAWS
      i. ARTICLE III, Section 2 (a) – Increase in the number of Directors from 7 to 8
      ii. ARTICLE V, Sections 2 and 4 – Composition of the Audit Committee and Nomination Remuneration and Governance Committee
9. Election of Members of the Board of Directors
10. Election of Additional Independent Director
11. Confirmation of Related Party Transaction/s
12. Appointment of External Auditor for the Bank and the Trust and Investment Services Department
13. Transaction of such Other Matters as May Come Before the Meeting
14. Adjournment.

Registration starts at 8:30 o'clock a.m. Only stockholders of record at the close of business hours on **June 5, 2018** are entitled to notice of, and to vote at, this meeting.

Stockholders who do not expect to attend the meeting in person may send a duly signed and dated proxy letter to the Corporation at the 19th Floor Fort Legend Towers, 3rd Avenue corner 31st Street, Bonifacio Global City, Taguig City, Philippines. Please submit your proxies to any of the following: Ms. May Ching or the undersigned. All proxies shall be received by the Corporation on or before the close of business hours of **June 18, 2018.** Proxies submitted shall be validated by a Committee of Inspectors on **June 25, 2018 at 10:00 o'clock** in the morning at the same address. For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the corporation's authorized signatory.

To avoid inconvenience in registering your attendance at the meeting, please bring valid identification paper(s) containing a photograph and signature, e.g. passport, driver's license.

Taguig City, June 1, 2018.

ZIMAR B. MENDIOLA
2nd Assistant Corporate Secretary

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b)
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

   ______ Preliminary Information Sheet
   __X__ Definitive Information Sheet

2. Name of Registrant as specified in its Charter:

   CTBC BANK (PHILIPPINES) CORP.

3. Province, country and other jurisdiction or incorporation or organization:

   Philippines

4. SEC Identification Number: **AS9508814A**

5. BIR Tax Identification Code: **004-665-166**

6. Address of the Principal Office: Postal Code:

   **Fort Legend Towers,
   Third Avenue corner 31st Street
   Bonifacio Global City, Taguig City** **1634**

7. Registrant's telephone number, including area code: **(632) 9889 287**

8. Date, time and place of the meeting of security holders:

   Date : **July 5, 2018 (Thursday)**
   Time : **9:30 a.m.**
   Place : **5th Floor, Function Room, The Ascott, 5th Avenue corner 28th Street, Bonifacio Global City, Taguig City 1634, Philippines**

9. Approximate date of which the Information Statement is to be first sent or given to security holders: ***June 6, 2018***

10. Securities registered pursuant to Sections 4 and 8 of the RSA:

    a. Authorized Capital Stock PhP3,000,000,000

       Common Shares 300,000,000 (PhP10.00 par value)

    b. Number of Shares Outstanding as of March 31, 2018:

       Common Shares **247,968,731 shares**
       Treasury Shares **484,920 shares**

c. Amount of Debt Outstanding as of December 31, 2017
(Total liabilities including deposits, bills payable, accrued expenses, etc.)
Php32,986,083,120

11. Are any of the registrant's securities listed in the Philippine Stock Exchange

__________ Yes ____X____ No

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. <u>GENERAL INFORMATION</u>

<u>WE ARE NOT ASKING FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY</u>

Item 1. *Date, Time and Place of Meeting of Security Holders.*

(a) Date : **July 5, 2018**
Time : **9:30 a.m.**
Place : **5th Floor, Function Room, The Ascott, 5th Avenue corner 28th Street, Bonifacio Global City, Taguig City 1634, Philippines**

Principal Office: **Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City.**

(b) **APPROXIMATE DATE OF WHICH THE INFORMATION STATEMENT IS TO BE FIRST SENT OR GIVEN TO SECURITY HOLDERS: *<u>June 8, 2018</u>***

Item 2. *Dissenter's Right of Appraisal*

There is no matter that will be taken up at the meeting that will give rise to a possible exercise by security holders of their appraisal rights. However, in the instances mentioned by the Corporation Code of the Philippines, the stockholders of the Bank have the right of appraisal provided that the procedures and the requirements of Title X thereof governing the exercise of appraisal right is complied with.

Item 3. *Interest of Certain Persons in or Opposition to Matters to be Acted Upon*

(a) There is no substantial interest, direct or indirect, by security holdings or otherwise, of any director or officer of CTBC Bank (Philippines) Corp. ("Bank" or "Corporation" or "Issuer" or "Registrant" for brevity).

(b) The Bank is not aware of any director or security holder who intends to oppose any action to be taken by the registrant during the stockholders' meeting.

B. <u>CONTROL AND COMPENSATION INFORMATION</u>

Item 4. *Voting Securities and Principal Holders Thereof*

(a) Number of Shares Outstanding as of April 30, 2018:

Common Shares: 247,968,731 shares

Number of Votes Entitled: **one (1) vote per share**

(Note: except for the 484,920 treasury shares which have no voting rights per Section 57 of the Corporation Code)

(b) **All stockholders of record at the close of business hours on June 5, 2018 are entitled to notice and to vote at the Annual Stockholders' Meeting.**

A copy of this SEC Form 20-IS shall likewise be distributed to stockholders of record as of **June 5, 2018** upon advice from our stock transfer agent.

(c) **Nomination and Election of Directors and Manner of Voting**

(1) In compliance with Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code (SRC), the Bank adopted in its By-Laws and Manual on Corporate Governance the requirement that the Bank's Nomination, Remuneration and Governance Committee (NRGC) shall review and evaluate the qualifications of all persons nominated to the Board as well as those other persons requiring the appointment by the Board of Directors [Section 4, Article V of the Amended By-Laws; Section V.2 of the Manual on Corporate Governance].

(2) With respect to the election of directors, Article II Section 8 of the Amended By-Laws of the Corporation allows the shareholders to vote in person or by proxy and to accumulate their votes. Thus:

> "Section 8. <u>Cumulative Voting for Election of Directors</u> - In accordance with Section 24 of the Corporation Code, at each election for directors, every shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected and for whose election he has a right to vote, or to cumulate his votes by giving one candidate as many votes as the number of such directors multiplied by the number of his shares shall equal, or by distributing such votes on the same principle among any number of candidates." [Article II Section 8 of the Amended By-Laws]

(3) On questions or matters submitted during the stockholders' meeting, stockholders are entitled to vote on a "one-vote per one share" basis. Thus:

> "Section 7. Voting of Shares in General - At each meeting of the stockholders, every stockholder entitled to vote on the particular question or matter involved shall be entitled to one (1) vote for each share of stock standing in his name on the books of the Bank at the time of closing of the transfer books for such meeting." [Section 7, Article II of the Amended By-Laws]

(d) **Security Ownership of Certain Record and Beneficial Owners and Management as of April 30, 2018**

1. **Security Ownership of Certain Record and Beneficial Owners of More than 5%**

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

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

The following are the Top 10 stockholders of CTBC Holding as of December 31, 2017:

NAME	NUMBER OF SHARE	PERCENTAGE
1. Cathay Life Insurance Co., Ltd.	646,967,368	3.26%
2. Yi Kao Investment Co., Ltd.	567,580,574	2.86%
3. Mega International Commercial Bank Co., Ltd. Acting as Custodian for the Investment Account of Morgan Stanley Formosa Holdings (Cayman) Limited	507,260,455	2.56%
4. China Life Insurance Co., Ltd.	427,239,303	2.15%
5. CTBC Bank Trust Account for CTBC Financial Holding Employee Welfare Savings Committee	317,550,696	1.60%
6. Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	315,624,555	1.59%
7. Government of Singapore	315,274,851	1.59%
8. Chuan Wei Investment Co., Ltd.	313,835,344	1.58%
9. Bank of Taiwan Co., Ltd.	303,446,426	1.53%
10. Fubon Life Insurance Co., Ltd.	284,400,943	1.43%

Information on beneficial owners of the corporate stockholders of CTBC Holding and the complete list of the Top 20 stockholders is inaccessible considering that records are located in Taiwan.

2. **Security Ownership of Management as of April 30, 2018:**

a. Directors

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Jack Lee	1	Taiwanese	0%
Common	William B. Go	55	Filipino	0%
Common	Wei Erh-Chang	1	Taiwanese	0%
Common	Huang Yi	1	Taiwanese	0%
Common	Huang Chih-Chung	1	Taiwanese	0%
Common	Edwin B. Villanueva	1	Filipino	0%
Common	Ng Meng Tam	1	Filipino	0%

b. **Executive Officers as of April 30, 2018**

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Wei Erh-Chang	1	Taiwanese	0%

c. **Directors and Officers**

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

3. **Voting Trust Holder of 5% or More**

There are no voting trust holders of 5% or more.

4. **Change in Control**

There is no change in control of the Bank and no change in control has occurred since the beginning of the last fiscal year. Moreover, there is no arrangement which may result in a change of control of the Bank.

Item 5. *Directors and Executive Officers*

(a) Directors and Executive Officers

Name	Nationality	Age	Position	Period Served
Jack Lee	Taiwanese	63	Chairman	Oct. 26, 2011 to present
William B. Go	Filipino	77	Vice-Chairman	Sep. 1995 to present
Wei Erh-Chang	Taiwanese	52	Director	Feb. 22, 2017 to present
			President & CEO	May 2, 2017 to present
Huang Yi	Taiwanese	55	Director	Oct. 27, 2017 to present
Huang Chih-Chung	Taiwanese	54	Director	June 26, 2014 to present
Edwin B. Villanueva	Filipino	66	Independent Director	Nov. 25, 2002 to present
Ng Meng Tam	Filipino	71	Independent Director	Oct. 25, 2007 to present

1. Board of Directors

The following are the incumbent members of the Board who shall be nominated for re-election as directors during the meeting and who shall each hold office from date of elections until the next annual shareholders meeting or until his resignation as director, 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. effective 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.

2. Independent Directors

2.1 Incumbent Independent Directors

In accordance with the procedures prescribed in the Securities Regulation Code Rule 38.8, the Bank's Nomination, Remuneration and Governance Committee endorsed Messrs. Ng Meng Tam (recommended by William Go, a director of the Bank) and Edwin B. Villanueva (recommended by Jack Lee, also a director of the Bank) for nomination as Independent Directors. Mr. Ng is not related to William Go. Neither is Mr. Villanueva related to Jack Lee.

These 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.

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.

2.2 Additional Independent Director

In accordance with the procedures prescribed in the Securities Regulation Code Rule 38.8, the Bank's Nomination, Remuneration and Governance Committee endorsed Mr. Alexander A. Patricio (recommended by Jack Lee, incumbent Chairman) for nomination as additional Independent Director. Mr. Patricio has met and continue to meet all the qualifications and possesses none of the disqualifications of an Independent Director under the Bank's Code of Corporate Governance, Section 38 of the SRC and relevant BSP rules. If elected, he will assume the position of Independent Director after approval by the Bangko Sentral Ng Pilipinas and the Securities and Exchange Commission of the amendments to the Bank's Articles of Incorporation and By-laws that will increase the number of directors from seven (7) to eight (8).

The amendments resulting in the increase of the number of Directors and the justifications are enumerated in ANNEX "H".

ALEXANDER A. PATRICIO, Filipino, received his Bachelor of Science degree in Industrial Management Engineering from De La Salle University and Master in Business Management from the Asian Institute of Management. He is at present an Independent Director of the Intellicare Group. He was Executive Vice President and Chief Risk Officer of Development Bank of the Philippines from 2013-2017; held various positions with ING Bank Philippines as Director/Country Risk Manager from 2012-2017, Director/Head of Corporate Lending from 2011-2012, and Director/Country Risk Manager from 1995-2011; Vice President and Senior Credit Officer/Head, Credit Policy and Risk Management Group of Citytrust Banking Corporation from 1991-1995; Vice President and Senior Risk manager of Citibank Australia Ltd., Melbourne from 1989-1991; Citibank Philippines, Makati from 1984-1989 and from 1976-1979; and Citibank Philippines-Cebu from 1979-1984. He is 66 years old.

2.3 Final List of Candidates for Independent Director

The foregoing is the Final List of Candidates eligible for election as Independent Directors. No further nominations shall be entertained nor allowed on the floor during the actual annual stockholders' meeting pursuant to the 2015 Implementing Rules and Regulations of the Securities Regulations Code Rule 38.8.5.

3. Brief Description of Material Legal Proceedings to which the Bank or Its Subsidiary is a Party

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.

Neither is the Bank aware of any material proceedings to be contemplated by government authorities or any other entity.

4. 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.

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 39 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.

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.

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.

JUSTINE BENEDICT G. DELA ROSA, Filipino, earned his AB Economics and Bachelor of Science in Management of Financial Institutions at De La Salle University. He holds the rank of Senior Vice President. He started his banking career in 1997 with Solidbank as Management Trainee. Having joined CTBC Bank as Foreign Exchange Trader in September 2000, he steadily rose up the career ladder until he became the Bank's Chief Dealer and Head of the Trading Desk. Mr. dela Rosa was promoted to Senior Vice President last 01 January 2018. He is 44 years old.

(b) Significant Employees

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

(c) Family Relationships

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

(d) 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 Annex F 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.

(e) Involvement in Certain Legal Proceedings of Directors and Officers

To the knowledge and/or information of the Bank, none of the nominees for election as director, nor any of the Bank's executive officers, during the last five (5) years and up to this date, has had any involvement in the following: (a.) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (b.) Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; (c.) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any time of business, securities, commodities or banking activities; and (d.) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 6. *Compensation of Directors and Executive Officers*

1. Compensation of Directors & Officers

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
Officers Unnamed (SVP's and up)	33.4	5.13	9.43	47.96
2017				
Executives (5)	40.77	5.33	17.55	63.65
Officers Unnamed (SVP's and up)	38.64	6.87	9.51	55.02
2018				
Executives (5)	38.86	5.99	25.81	70.66
Officers Unnamed (SVP's and up)	30.86	5.58	7.84	44.28
(Estimate)				

Chief Executive Officer and four other most highly compensated executive officers:

Peter Wei	President and CEO
Jamie Wang	Executive Vice President
Oliver D. Jimeno	Executive Vice President
Maria Gretchen S. Macabasco	Senior Vice President
Remo Romulo M. Garrovillo, Jr.	Senior Vice President

Summary Compensation Table of Directors

Name	IN MILLION PESOS			
	Per Diem Board Attendance	Per Diem Board Committee Attendance	Others	Total
2016				
Directors (7)	2.60	2.98	2.50	8.09
2017				
Directors (7)	2.97	3.17	2.50	8.64
2018				
Directors (7)	4.02	3.36	2.5	9.88
(Estimate)				

2. ***Employment Contract and Termination of Employment and Change-in-Control Arrangements***

There is no formal employment contract between the Bank and the named executive officers covering compensation package. Incidentally, the said executive officers, just like other officers and employees, are also entitled to standard fringe benefits granted by the Bank such as coverage under the Bank's non-contributory Retirement Plan and Group Life Insurance.

3. ***Warrants and Options Outstanding***

There are no warrants, option, or right to purchase shares arrangement between the Bank and its directors and officers.

Similarly, there are also no actions to be taken as regards any bonus, profit sharing, pension or retirement plan, granting of any option, warrant, or right to purchase shares between the Bank and its directors and officers.

Item 7. *Independent Public Accountants*

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

RGM will be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

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

The Bank's Board of Directors in its meeting held on June 1, 2018 and April 26, 2018, appointed R.G. Manabat and Co. (RGM) the local firm of KPMG International as the external auditor for the Bank and the Trust and Investments Department, respectively, for calendar year 2018.

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

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

(b) Tax & 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. Annex "C" discusses the composition of the Audit Committee.

Item 8. *Compensation Plans* – NOT APPLICABLE

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. *Authorization or Issuance of Securities Other than for Exchange*

On March 30, 2007, the Board of Directors of the Bank declared 15% stock dividends to be issued out of the Bank's unissued shares. The stock dividend declaration was approved 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 20, 2007, an additional 32,343,734 common shares (representing 15% of the Bank's 215,624,997 then outstanding common shares) were listed with the PSE and issued to the Bank's shareholders as of record date. The remaining 15.55 fractional shares were paid out as cash dividends. Nonetheless, there was no change in the proportional or percentage of ownership of the Issuer by any of the shareholders arising from the stock dividends.

The 32,343,734 stock dividends worth P323,437,340.00 were issued out of the Bank's unissued shares. Out of the Bank's authorized capital stock of P3,000,000,000.00 consisting of 300,000,000 common shares at P10 per share, a total of 247,968,731 common shares have been issued and are outstanding.

On December 23, 2011, the Bank filed a Petition for Voluntary Delisting at the Philippine Stock Exchange ("PSE"). Pursuant to the PSE Voluntary Delisting Rules, a tender offer at a price of Php 26.14 per share was conducted by the Bank which commenced on December 27, 2011.

The tender offer period ended at 12 noon on January 27, 2012. The total number of common shares tendered and accepted by the Bank was 484,920 shares. Said shares were crossed at the PSE on February 3, 2012 and are now directly held by the Bank as treasury shares. The PSE in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Petition for Voluntary Delisting effective February 24, 2012.

Item 10. *Modification or Exchange of Securities* – NOT APPLICABLE

Item 11. *Financial and Other Information*

(a) Brief Description of the General Nature and Scope of the Business of the Registrant, attached as **Annex "A"**;

(b) Market Information, Dividends, and Top 20 Stockholders, attached as **Annex “B”**;
(c) Discussion of Compliance with leading practice on Corporate Governance, attached as **Annex “C”**;
(d) Management’s Discussion and Analysis or Plan of Operation, attached as **Annex “D”**;
(e) Statement of Management Responsibility for Financial Statements, attached as **Annex “E”**;
(f) Audited Financial Statements for the fiscal year ended as of December 31, 2017, attached hereto as **Annex “F”**;
(g) Unaudited Financial Statements as of the end of March 31, 2018, attached as **Annex “F-1”**;
(h) As part of the Bank’s corporate governance practice which requires an evaluation of relationship on a regular basis, the RGM was appointed as the external auditor for the calendar years 2017 and 2018.

Item 12. *Mergers, Consolidations, Acquisitions and Similar Matters* – NOT APPLICABLE

Item 13. *Acquisition or Disposition of Property*

Except for the acquisition of properties in connection with ordinary course of business or disposition of real and other properties owned or acquired (ROPOA) and non-performing loans (NPL), there are no actions to be taken as regards acquisition or disposition of properties.

Item 14. *Restatement of Accounts* – NOT APPLICABLE

D. OTHER MATTERS

Item 15. *Action with Respect to Reports*

The following are the matters pertaining to reports which will be submitted to the shareholders for action:

1. Approval of the Minutes of Annual Stockholders’ Meeting of June 22, 2017 attached as **Annex “G”**. Action on the minutes will not constitute approval or disapproval of any of the matters referred to in the said minutes but will most likely be approved thereof as written as traditionally done, or at most correction or modification thereof may be made prior to actual approval.

2. Submission of Audited Financial Statements of the Bank as of 31 December 2017 (Annex F).

Item 16. *Matters Not Required to be Submitted* – NOT APPLICABLE

Item 17. *Amendment of Charter, By-Laws or Other Documents* –

The proposed resolutions for approval by the shareholders are contained in **Annex “H”**.

JUSTIFICATIONS:

The Bank has to comply with relevant BSP issuances. BSP Circular 969 Series of 2017 requires the following:

1. Audit Committee:

   Chairperson of the AC must be an Independent Director (ID), majority must be ID's and all must be non-executive directors.
   Also, Chairperson must not be the Chairperson of the Board nor of any Board committee.
   (Subsec. X144.1 Circular 969)

2. Risk Oversight Committee (the equivalent of the Bank's Risk Management Committee)

   Chairperson of RMC must be an ID, majority must be ID's.
   Also, Chairperson must not be the Chairperson of the Board nor of any Board committee.
   (Subsec X144.2 Circular 969)

3. Nomination, Remuneration and Governance Committee

   Chairperson of the NRGC must be an ID, majority must be ID's, and all must be non-executive directors. (Subsec. X144.3 Circular 969)

Thus, the Circular requires 3 Chairpersons who are ID's with the restriction that the Chairpersons of the AC and RMC should not be the Chairperson of the Board nor of any other committee. The Bank has only 2 ID's.

During the scheduled meeting, it will be proposed that: (a.) the number of the Board of Directors in the Articles and By Laws be increased so that an additional independent director may be elected to enable the Bank to comply with the Circular; and (b.) By Laws provisions on the AC, and NRGC be revised to reflect requirements of the Circular pertaining to the composition of the said committees. Proposed amendments are as follows:

1. Amendment to ARTICLE SIXTH – Increase in the number of Directors from 7 to 8

2. Amendment to the By-Laws

   a. ARTICLE III, Section 2 (a) – Increase in the number of Directors from 7 to 8
   b. ARTICLE V, Sections 2 and 4 - Composition of the Audit Committee and Nomination Remuneration and Governance Committee

Item 18. ***Other Proposed Actions***.

The following are the other proposed actions which will be submitted to the shareholders for action:

1. Election of Members of the Board of Directors.

   Majority of the incumbent directors are expected to be re-nominated during the annual meeting.

Election of an additional Independent Director. The additional Independent Director shall assume the position after approval by the BSP and the SEC of the amendments to the Articles of Incorporation and By-laws.

2. Appointment of External Auditor for the Bank and the Trust and Investment Services Department for the Calendar Year 2018.

   The Bank's Board of Directors in its meeting held on June 1, 2018 and April 26, 2018, appointed R.G. Manabat and Co. (RGM) the local firm of KPMG International as the external auditor for the Bank and the Trust and Investments Department, respectively, for calendar year 2018 subject to ratification by the shareholders in the scheduled meeting.

3. Confirmation of Related Party Transaction/s.

   The Board in its meeting held on September 13, 2017 approved the credit facilities in favor of Kinpo Electronics (Phils.) Inc. The Board approval is subject to the confirmation of the stockholders pursuant to BSP Circular 895 Series of 2015 Guidelines on Related Party Transactions, particularly Section X146.2, to wit:

> Section x146.2 Duties and Responsibilities/Roles and Functions.
>
> (a) Board Duties and Responsibilities. The Board of Directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depository creditors and other stakeholders. Towards this end, the board of directors shall carry out the following duties and responsibilities:
>
> x x x
>
> 2. To approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the board of directors.
>
> All final decisions of the board on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholders meetings and duly reflected in the minutes of board and stockholders' meetings.

   Information on the credit facility are as follows:

BORROWER	:	Kinpo Electronics (Philippines) Inc.
FACILITY	:	Short Term
PURPOSE OF CREDIT FACILITY	:	Fund for short term working capital
AMOUNT	:	USD 20,000.00
TERM	:	12 Months
INTEREST	:	Interest rate subject to risk based pricing policy (currently 2.35-2.75%)
REPAYMENT SOURCES	:	Operation Cash Flow
JUSTIFICATION /CREDIT BASIS	:	1. The Kinpo Group has been Parent Bank's client for more than 10 years and credit dealings have been very satisfactory. 2. Borrower's parent company, Kinpo Electronics Taiwan, is a publicly listed company in Taiwan and is among the top 3 OEM/EMS (original electronic manufacturing/electronic manufacturing service) providers in the world.
REASON FOR RELATED PARTY TRANSACTIONS	:	Borrower's parent company is Kinpo Electronics Taiwan. One of the directors of the latter, is Mr. Chiang Pin Kung who also sits as Chairman of Tokyo Star Bank. His son, Chiang Chun-Te is one of the Directors of Parent Bank. Due to the terms of control/significant influence, Borrower is considered as a Related Party Transaction.

Ratification of All Acts, Decisions and Proceedings of the Board of Directors, Committees and Management since the last Annual Meeting. All the actions of Management and the Board of Directors were done in accordance with the general or specific resolutions of the Board of Directors. Among the significant actions undertaken which were endorsed by Management and approved by the Board of Directors (or approved by a Committee then noted or confirmed by the Board of Directors as may be proper), are as follows: i. approval of items for the 2018 stockholders' meeting such as date of meeting, record date, endorsement of nominees for directors, including the final list of candidates for independent directors; ii. appointments to the Committees; iii. Appointment of directors and executive officers.

Item 19. *Voting Procedures.*

(a) **Vote required for approval or election**

The actions to be taken shall only require the vote of security holders representing at least a majority of the issued and outstanding capital stock entitled to vote.

(b) **Method by which votes will be counted**

Straight and Cumulative Voting

In all items for approval except election of directors, each share of stock entitles its registered owner to one vote. With respect to election of directors, a security holder shall have cumulative voting rights under Article II, Section 8 of the amended By-Laws as previously stated.

Representatives of the Bank's stock transfer agent, Stock Transfer Service, Inc. shall be authorized to count the votes cast.

SIGNATURE PAGE

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES REGULATION CODE, THE ISSUER HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED HEREUNTO DULY AUTHORIZED.

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this report is true, complete and correct.

This report is signed in the City of Taguig on June 1, 2018.

CTBC BANK (PHILIPPINES) CORP.
Issuer
By:

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

UNDERTAKING

The Bank shall provide, without charge to any person upon a written request directed to ATTY. MARITESS PARILLA-ELBINIAS, First Vice President and Legal Department Head at the 22nd Floor, Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City, a copy of the registrant's annual report on SEC form 17A. At the discretion of the management, a charge may be made for exhibits, provided that such charge is limited to reasonable expenses incurred by the registrant in furnishing such exhibits.

ANNEX “A”

BRIEF DISCRIPTION OF THE GENERAL NATURE AND SCOPE OF BUSINESS OF THE REGISTRANT

(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

TREASURY SERVICES
Foreign Exchange
- Spot, Forward, Swap & Options

Peso Fixed Income
- Treasury Bills
- Fixed Rate Treasury Notes
- Retail Treasury Bonds
- Global Peso Notes
- Peso Corporate Bonds
- Peso Short Term Commercial Papers

Dollar Fixed Income
- ROP Bonds
- ROP Onshore Dollar Bonds
- Other Sovereign Bonds
- Dollar Corporate Bonds

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

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

CREDIT FACILITIES & CORPORATE LOANS
Short-term Loans
Term Loan Financing
Syndicated Financing
Omnibus Facilities
Discounting Facilities
Domestic Bills Purchase

CASH MANAGEMENT SERVICES
Account Information Management
- NetBanking
- E-Mail Statement

Disbursement Management
- Payroll
- Ultimate CheckWriter
- Customs Duties
- BIR eFPS
- BancNet eGov
- MC Bulk Preparation

Receivables Management
- Post-Dated Check Warehousing
- Ultimate Money Mover (Deposit Pick-up)
- BancNet Bills Payment
- Bills Payment (Merchant Biller)

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

TRUST AND INVESTMENT SERVICES
Investment Management Account
Personal Management Trust
Employee Benefit Plan Management
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 April 2018.

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

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

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

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

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

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

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

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

Number of Employees. As of April 30, 2018, the Bank had six hundred six (606) employees composed of 364 officers and 242 staff, with 546 regular employees and 60 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△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△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.

ANNEX “B”

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 April 30, 2018 is 110.

Common Shares outstanding as April 30, 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 April 30, 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.

ANNEX "C"

DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON 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 NRGC 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.

ANNEX "D"

MANAGEMENT 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 an improved return on equity (ROE) and return on assets (ROA) at 4.0% and 0.8% respectively.

Net interest income rose by 11.6%, from PhP1.618 billion to PhP1.806 billion. The improvement in net interest income was spurred by an 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.

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%

ANNEX "E"

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 accessing 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.

CTBC BANK (PHILIPPINES) CORP.
16th to 19th Floors, Fort Legend Towers, 31st Street corner 3rd Avenue, Bonifacio Global City, Taguig City 1634
+63 (2) 717-5287 / 988-9287 www.ctbcbank.com.ph

MAR 0 8 2018

SUBSCRIBED AND SWORN to before me this _______ day of __________ 2018 affiants exhibiting to me their Government Issued I.D., as follows:

NAMES	**GOVERNMENT ISSUED I.D. / TIN**	**DATE/PLACE OF ISSUE**
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

ANNEX “F”

AUDITED FINANCIAL STATEMENTS OF THE BANK AS OF 31 DECEMBER 2017

COVER SHEET
For
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S O 9 5 0 0 8 8 1 4

COMPANY NAME

CTBC BANK (PHILIPPINES) CORPORATION [Formerly Chinatrust (Philippines) Commercial Bank Corporation]

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
110		December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Andrew A. Falcon	andrew.falcon@ctbcbank.com.ph	811-8509	

CONTACT PERSON's ADDRESS

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

CTBC BANK (PHILIPPINES) CORPORATION

FINANCIAL STATEMENTS
December 31, 2017 and 2016

KPMG

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

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
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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
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
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	*13, 17*		
Demand		**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

	Note	December 31 2017	December 31 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			
Items that may not be reclassified to profit or loss			
Net unrealized gain (loss) on retirement obligation	*19*	**(68,916,987)**	11,580,893
Items that may be reclassified to profit or loss			
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**	**P7,129,1**
Net income for the year	-	-	-	287,954,120	-	-	-	-	287,9
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)	(68,9
Items that may be reclassified to profit or loss									
- Net unrealized gain (loss) on available-for-sale investments	-	-	-	-	-		13,420,325	-	13,4
- Cumulative translation adjustments	-	-	-	-	-	(21,421,477)		-	(21,4
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**	**(P15,506,159)**	**(P55,407,993)**	**P7,340,1**
Balance at January 1, 2016	P2,479,687,310	(P15,951,674)	P53,513,675	P4,379,410,987	P4,981,159	P12,727,932	(P23,814,176)	P1,928,101	P6,892,4
Net income for the year	-	-	-	213,047,078	-	-	-	-	213,0
Other Comprehensive Income for the Year									
Items that may not be reclassified to profit or loss									
- Net unrealized gain (loss) on retirement obligation	-	-	-	-	-	-	-	11,580,893	11,5
Items that may be reclassified to profit or loss									
- Net unrealized gain (loss) on available-for-sale investments	-	-	-	-	-	-	(5,112,308)	-	(5,1
Cumulative translation adjustments	-	-	-	-	-	17,154,373	-	-	17,1
Balance at December 31, 2016	P2,479,687,310	(P15,951,674)	P53,513,675	P4,592,458,065	P4,981,159	P29,882,305	(P28,926,484)	P13,508,994	P7,129,1

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

Forward

	Note	Years Ended December 31 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.

<u>Derecognition of Financial Instruments</u>
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.

<u>Debt Issue Cost</u>

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.

<u>Cash and Cash Equivalents</u>

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.

<u>Estimates</u>

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).

<u>Credit Risk</u>
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 Credit Enhancements**	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Credit 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	-
		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		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	P3,595,955	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		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	P2,296,959	10.2	P12,414,369	99.7	P -	-	P14,711,328
Manufacturing	5,662,921	25.2	-	-	-	-	5,662,921
Wholesale and retail	3,941,556	17.5	-	-	-	-	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	928,161	4.1	-	-	-	-	928,161
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**
Investment grade	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 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								
	Neither Past Due nor Specifically Impaired								
	Investment Grade	Sub-investment Grade	High Risk	Watch-list	Default	Unrated	Past Due but not Specifically Impaired	Specifically Impaired	Total
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	168,494
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	P17,118,215	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								
	Neither Past Due nor Specifically Impaired						Past Due but not Specifically Impaired	Specifically Impaired	Total
	Investment Grade	Sub-Investment Grade	High Risk	Watch-list	Default	Unrated			
Loans and receivables									
Due from BSP	P6,078,965	P -	P -	P -	P -	P -	P -	P -	P6,078,965
Due from other banks	2,129,328	-	-	-	-	-	-	-	2,129,328
Interbank loans receivable	2,157,292	-	-	-	-	-	-	-	2,157,292
Loans and discounts									
Institutional banking	1,731,931	4,757,673	9,110,593	-	-	-	-	249,485	15,849,682
Retail banking	2,569,188	781,232	-	-	12,637	-	26,722	249,596	3,639,375
Mortgage banking	1,465,336	481,979	-	-	9,572	-	415	26,930	1,984,232
Small business loans	127,419	954,784	-	-	-	-	400	-	1,082,603
Accrued interest receivable	36,437	16,425	18,653	-	52	62,678	-	154	134,399
Others receivables	-	-	-	-	-	290,386	-	-	290,386
Unquoted debt securities	42,480	-	-	-	-	-	-	-	42,480
Other assets*	-	-	-	-	-	30,592	-	-	30,592
Subtotal	16,338,376	6,992,093	9,129,246	-	22,261	383,656	27,537	526,165	33,419,334
Financial assets at FVPL									
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	P17,300,154	P8,091,540	P9,129,246	P -	P22,261	P383,656	P27,537	P526,165	P35,480,559

**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					
	On Demand	1 to 3 Months	3 to 6 Months	6 to12 Months	Greater than One Year	Total
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					
	On Demand	1 to 3 Months	3 to 6 Months	6 to12 Months	Greater than One Year	Total
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					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
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					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
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								
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	Total
Assets									
Loans and receivables									
Cash and other cash items	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	4,570,109	27,969,936
Other assets*	1,632	408	1,440	1,250	2,900	17,367	7,939	3,289	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	146,686	182,934	416,130
AFS investments	-	-	-	-	-	-	-	1,070,821	1,070,821
HTM investments	1,002	-	34,882	19,664	-	100,000	-	954,748	1,110,296
Total financial assets	14,851,787	5,214,583	3,864,353	1,980,605	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	3,844,610	440,213	-	-	-	-	-	-	4,284,823
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								
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	Total
Assets									
Loans and receivables									
Cash and other cash items	P428,066	P -	P -	P -	P -	P -	P -	P -	P428,066
Due from BSP	6,078,965	-	-	-	-	-	-	-	6,078,965
Due from other banks	2,129,328	-	-	-	-	-	-	-	2,129,328
Interbank loans receivable	2,157,292	-	-	-	-	-	-	-	2,157,292
Loans and discounts - gross	3,956,840	2,882,846	4,354,446	1,748,263	2,918,704	3,315,615	1,070,199	2,776,244	23,023,157
Other assets*	1,788	1,941	1,472	1,447	1,607	2,900	12,922	6,515	30,592
Subtotal	14,752,279	2,884,787	4,355,918	1,749,710	2,920,311	3,318,515	1,083,121	2,782,759	33,847,400
Financial assets at FVPL	148,575	7	374,400	205	37,721	131	-	6,054	567,093
AFS investments	-	-	-	50,958	-	108,035	-	804,720	963,713
HTM investments	-	1,010	-	17,832	35,622	-	-	475,955	530,419
Total financial assets	14,900,854	2,885,804	4,730,318	1,818,705	2,993,654	3,426,681	1,083,121	4,069,488	35,908,625
Liabilities									
Financial liabilities at FVPL derivative liabilities	32,593	-	-	-	-	-	-	-	32,593
Other financial liabilities at amortized cost									
Deposit liabilities	20,623,646	4,181,156	1,487,384	595,325	79,575	-	-	-	26,967,086
Bills payable	-	-	-	-	-	-	-	-	-
Outstanding acceptances	10,584	-	-	-	-	-	-	-	10,584
Manager's checks	52,177	-	-	-	-	-	-	-	52,177
Accrued interest and other expenses**	347,175	-	-	-	-	-	-	-	347,175
Other liabilities***	1,470,339	-	-	-	-	-	-	-	1,470,339
Total financial liabilities	22,536,514	4,181,156	1,487,384	595,325	79,575	-	-	-	28,879,954
Asset-liability gap	(P7,635,660)	(P1,295,352)	P3,242,934	P1,223,380	P2,914,079	P3,426,681	P1,083,121	P4,069,488	P7,028,671

**Includes returned checks and other cash items and rent deposit*
***Excludes accrued taxes and other non-financial accruals*
****Excludes withholding taxes payable and miscellaneous liabilities*

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	215	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)	(6,306)	(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)	(17,796)	(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					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Loans and receivables:						
Cash and other cash items	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	25,643,773	8,485,494	2,052,631	955,071	2,908,930	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					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Loans and receivables:						
Cash and other cash items	P428,066	P -	P -	P -	P -	P428,066
Due from BSP	6,078,965	-	-	-	-	6,078,965
Due from other banks	2,129,328	-	-	-	-	2,129,328
Interbank loans receivable	2,157,292	-	-	-	-	2,157,292
Loans and discounts - gross	3,956,640	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			
	Level 1	Level 2	Level 3	Total
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:

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

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					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
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					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	P98,797,688	P32,090,880	P -	P268,263,603	P65,855,336	P465,007,507
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		
	Specific Impairment	**Collective Impairment**	**Total**
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		
	Specific Impairment	Collective Impairment	Total
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:

	Note	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:

	Note	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	-	-	(5,131)	-	-	(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				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	P101,412	P659,072	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	149,782	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				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	P63,728	P569,145	P984,716	P -	P1,617,589
Intersegment	96,760	(199,677)	103,345	(428)	-
	160,488	369,468	1,088,061	(428)	1,617,589
Non-interest income	279,602	50,949	295,046	5,198	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):

	Note	**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:

			Outstanding Balance			
Category/Transaction	Year	Amount of the Transaction	Due from Related Parties	Due to Related Parties	Terms	Conditions
Parent						
Current Deposits						
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
Bills Payable						
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
Interest Expense on Bills Payable	**2017**	**14,277,779**	**-**	**4,146,132**	**Demandable; interest bearing**	**Unsecured; no impairment**
	2016	6,592,255	-	-	Demandable; interest bearing	Unsecured; no impairment
Entities Under Common Control						
Current Deposits to CTBC - New York						
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
Current Deposits to CTBC - Hongkong						
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
Current Deposits to CTBC- Canada						
Deposits	**2017**	**37,170,133**	**1,650,731**	**-**	**Demandable;**	**Unsecured;**
Withdrawals		**(36,674,657)**	**-**	**-**	**non-interest bearing**	**no impairment**
Deposits	2016	5,916,955	924,932	-	Demandable;	Unsecured;
Withdrawals		(5,106,474)	-	-	non-interest bearing	no impairment

Forward

			Outstanding Balance			
Category/Transaction	**Year**	**Amount of the Transaction**	**Due from Related Parties**	**Due to Related Parties**	**Terms**	**Conditions**
Key Management Personnel						
Loans and Receivables						
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
Interest Income on Loans and Receivables	**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						
Deposit Liabilities						
Deposits	**2017**	**357,568,455**	**-**	**1,577,740**	**1-3years, interest bearing**	**Secured, no impairment**
Withdrawals		**(356,554,238)**	**-**	**-**		
Deposits	2016	87,148,905	-	563,523	1-3years, interest bearing	Secured, no impairment
Withdrawals		(87,144,428)	-	-		
Interest Expense on Deposit Liabilities	**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		
	Assets	**Liabilities**	**Notional Amount**
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		
	Assets	Liabilities	Notional Amount
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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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		✔ *	

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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	*Determining Whether an Arrangement Contains a Lease*	✔		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✔
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✔
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✔
IFRIC 9	Reassessment of Embedded Derivatives	✔		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✔		
IFRIC 10	*Interim Financial Reporting and Impairment*			✔
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	✔		

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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.*

** The Bank will adopt this new or amendment to standard effective January 1, 2018*
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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 declaration[1], ending		**P -**

[1] - At the regular meeting of the BOD held on June 23, 2015, the BOD approved the restriction of the full amount of retained earnings for the following purposes:
i.) to comply with minimum capital requirement set forth under BSP Circular No. 854.
ii.) to comply with the requirements of the ICAAP pursuant to BSP Circular No. 639;
iii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise; and
iv.) to provide for buffer in preparation for BASEL III requirements

[2] - Amount includes transaction cost.

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

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%

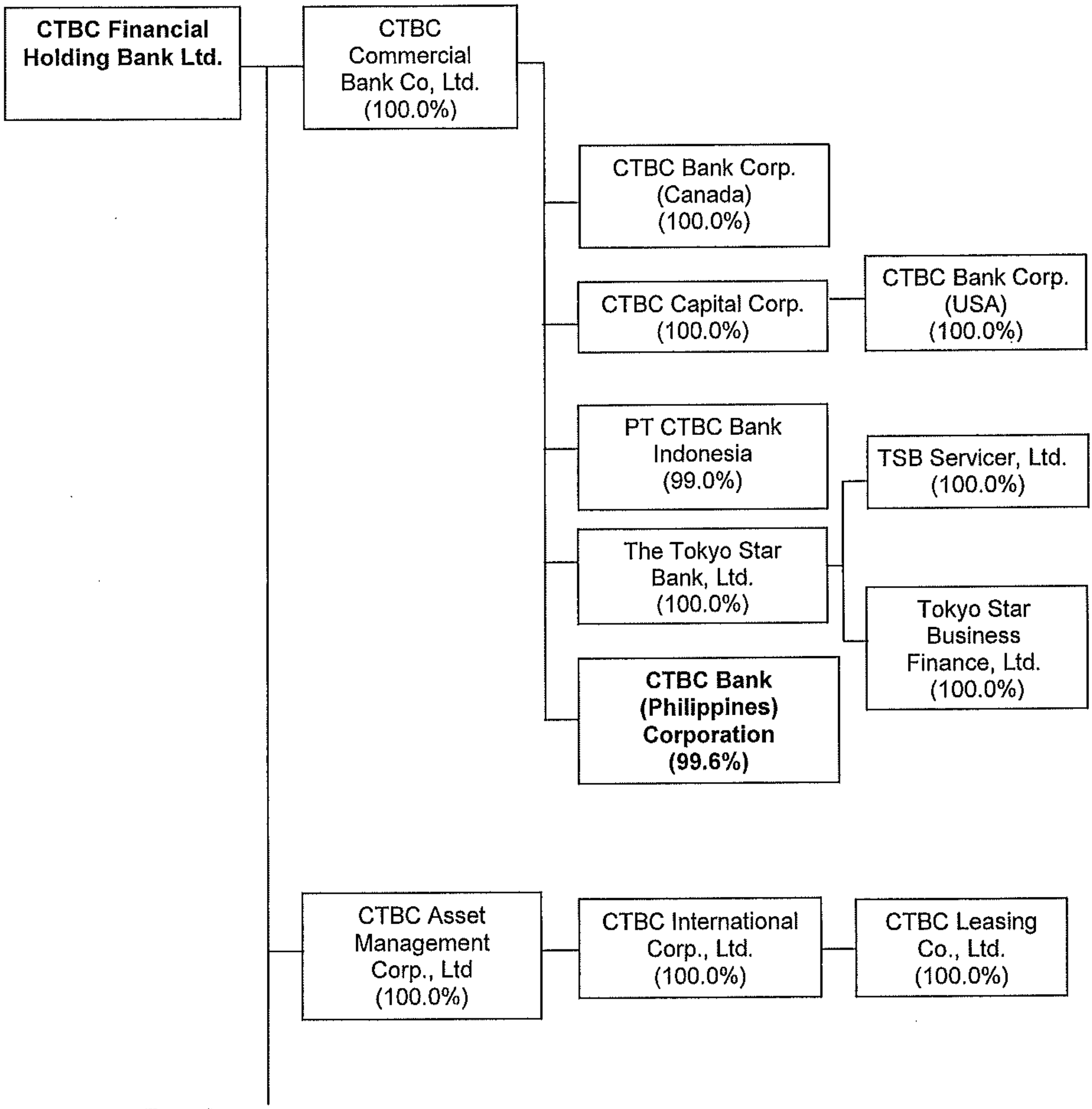
Profitability Ratios
The ratio for the years 2017 and 2016 are as follows:

	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%

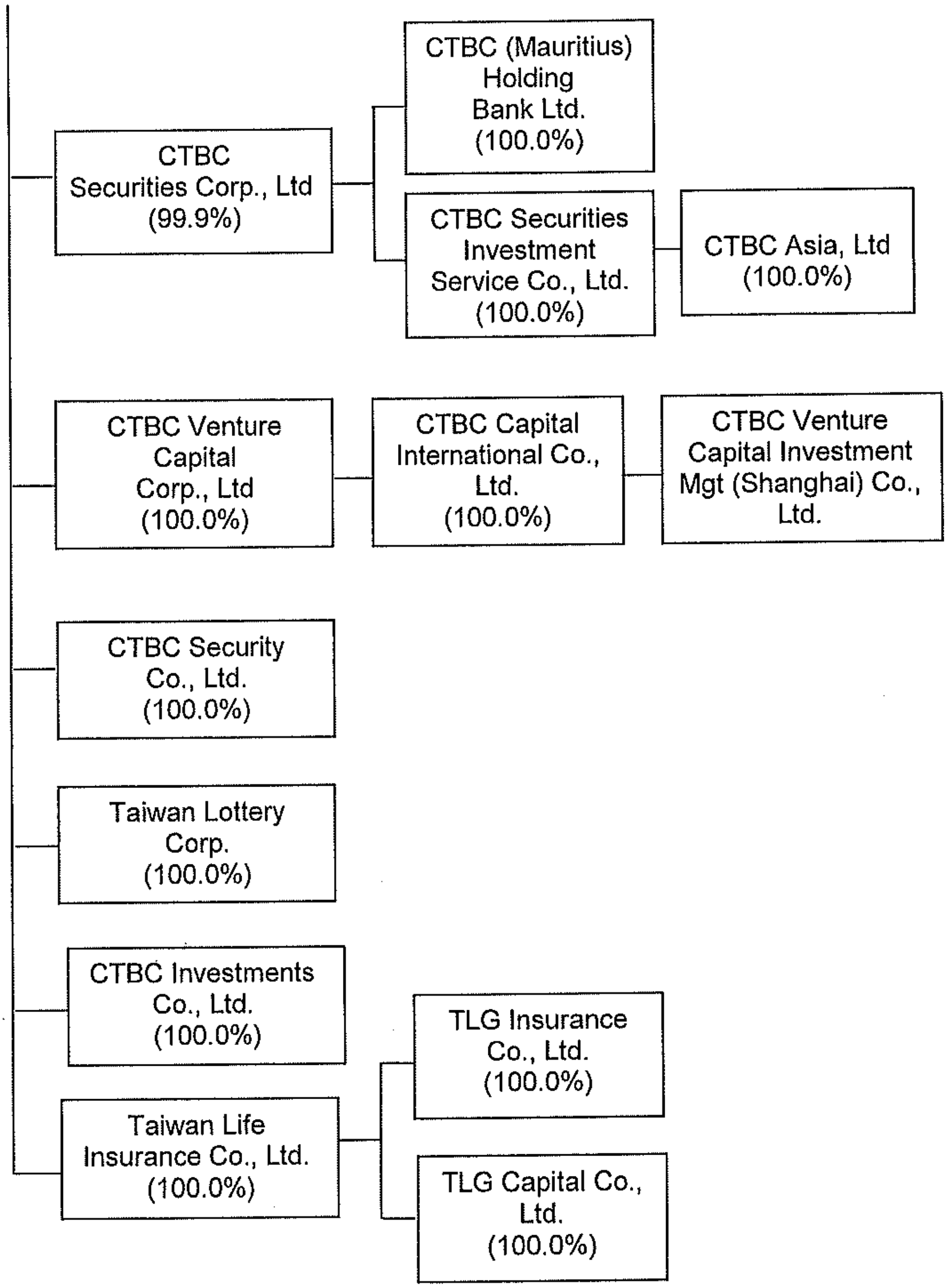
CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

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)


CTBC Securities Corp., Ltd (99.9%)
CTBC (Mauritius) Holding Bank Ltd. (100.0%)
CTBC Securities Investment Service Co., Ltd. (100.0%)
CTBC Asia, Ltd (100.0%)
CTBC Venture Capital Corp., Ltd (100.0%)
CTBC Capital International Co., Ltd. (100.0%)
CTBC Venture Capital Investment Mgt (Shanghai) Co., Ltd.
CTBC Security Co., Ltd. (100.0%)
Taiwan Lottery Corp. (100.0%)
CTBC Investments Co., Ltd. (100.0%)
Taiwan Life Insurance Co., Ltd. (100.0%)
TLG Insurance Co., Ltd. (100.0%)
TLG Capital Co., Ltd. (100.0%)

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

Name of Debtor	Beginning Balance	Additions	Collections	Ending Balance
Employee Loans/Total	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):

	Shares	Amount
Common stock - P10 par value		
Authorized	300,000	P3,000,000
Issued and fully paid		
Balance at beginning and end of the year	247,969	2,479,687

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

SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED BY ANNEX 68-E
DECEMBER 31, 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: 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					
				Related Amounts not Offset in the Statements of Financial Position		
	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	Financial Instruments	Cash Collateral Received	Net Amount
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 -

	2016					
	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Statement of Financial Position	Net Amounts of Financial Assets Presented in the Statement of Financial Position	Related Amounts not Offset in the Statement of Financial Position: Financial Instruments	Related Amounts not Offset in the Statement of Financial Position: Cash Collateral Received	Net Amount
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		-	-	-	-

ANNEX “F-1”

INTERIM UNAUDITED FINANCIAL STATEMENT
AS OF MARCH 31, 2018
&
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Security Code BS-021
SEC Number AS095-008814A
File Number ________

CTBC BANK (PHILIPPINES) CORPORATION
Sixteenth to Nineteenth Floors, Fort Legend Towers,
31st St. corner 3rd Avenue, Bonifacio Global City, Taguig City
(Company's Full Name)

988-9287
(Telephone Number)

2018 December 31
(Fiscal Year Ending)
(Month & Day)

SEC FORM 17-Q
Quarterly Report
Form Type

____
Amendment Designation
(If Applicable)

March 31, 2018
Period Ended Date

____
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17- Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended March 31, 2018

2. Commission identification number AS095-008814A

3. BIR Tax Identification No. 004-665-166

4. Exact name of registrant as specified in its charter
CTBC Bank (Philippines) Corporation

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of registrant's principal office Postal Code

Sixteenth to Nineteenth Floors, Fort Legend Towers, 31st St. corner 3rd Avenue, Bonifacio Global City, Taguig City 1634

8. Registrant's telephone number, including area code (02) 988-9287

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class		**Number of shares common stock outstanding and amount of debt outstanding**
Common	₱10.00 par value	247,968,731 shares ₱2,479,687,310

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

Yes [ ] No [/]

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports).

Yes [/] No [ ]

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

Yes [/] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

(Refer to Attached Financial Statements)

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operation

For the three months ending March 31, 2018, the Bank's net income after tax grew by 30.7% to P105 million. This translated to an ROE and ROA of 5.93% and 1.69%, respectively. Net interest income increased by 4% to P452 million from P434 million on the back of stable performance of loans and receivables. Trading gains posted a slight increase of P5.8 million to P17 million at the end of the first quarter while foreign exchange gains dropped by P20.4 million from P59.5 million to P39.2 million at the end of the period.

Total resources of the Bank stood at P41 billion at March 31, 2018 as compared with 2017 year-end level of P40 billion. Available for Sale Investments rose by P1.6 billion to P2.7 billion as of March 31, 2018 and Held to Maturity Investments went up by P135.2 million to P1.2 billion from P1.1 billion as of end of first quarter. Also, Net loans and receivables slightly increased to P27.8 billion from P27.5 billion at 2017 year-end. On the other hand, Interbank loans decreased by 10% to P4.1 billion from P4.6 billion last year. In addition, Financial Assets at Fair Value through Profit or Loss went down by P333.8 million to P82 million. Furthermore, Due from BSP and Due from Other Banks declined to P3.1 billion from P3.5 billion and to P627.1 million from P879.1 million, respectively. Total liabilities increased by P790 million to P33.8 billion mainly on account of higher deposit liabilities and outstanding acceptances at the end of the period.

The Bank's asset quality improved year-on-year resulting to a recovery of P16.9 million versus the P37.1 million booked in the same period last year. Meanwhile, Operating costs grew by 9% due to increase in depreciation and amortization of newly acquired property, plant and equipment.

Non-performing loans (NPL) ratio rose to 1.34% from 0.72%, while NPL coverage stood at 118% from 95% as of end of last year. The Bank's capital adequacy ratio (CAR) remains high relative to industry average at 18.8% as of March 31, 2018.

Key Financial Indicators

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

	March 31, 2018	March 31, 2017
Return on Average Equity (ROE)	5.93%	4.57%
Return on Average Assets (ROA)	1.69%	0.92%
Cost-to-Income Ratio	72.68%	72.10%

	March 31, 2018	December 31, 2017
Non-Performing Loan Ratio (NPL)	1.34%	0.72%
Non Performing Loan Cover	118%	95%
Capital Adequacy Ratio	18.8%	19.4%

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 (net of specific allowance for credit losses per BSP Circular 772) divided by gross loan portfolio
- Non-Performing Loan Cover --- Total allowance for probable loan losses divided by total non-performing loans (net of specific allowance for credit losses per BSP Circular 772
- Capital Adequacy Ratio --- Total capital divided by risk-weighted assets

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Liquidity ratio

The ratios for March 2018 and end-of-year 2017 were as follows:

	March 2018	December 2017
Net liquid assets	₽ 9,567,312,912	₽ 6,581,471,674
Total deposits	29,556,376,189	26,701,900,983
Ratio of net liquid assets to total deposits	**32%**	25%

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

Debt to equity ratio

The ratios for March 2018 and end-of-year 2017 were as follows:

	March 2018	December 2017
Total liabilities	**₽ 33,776,145,436**	₽ 32,986,083,120
Total equity	**7,204,818,396**	7,340,189,331
Ratio of debt to equity	**469%**	449%

Assets-to-equity ratio

The ratios for March 2018 and end-of-year 2017 were as follows:

	March 2018	December 2017
Total assets	**₽ 41,089,765,120**	₽ 40,326,272,451
Total equity	**7,390,550,476**	7,340,189,331
Ratio of total assets to equity	**556%**	549%

Interest coverage ratio

The ratios for March 2018 and end-of-year 2017 were as follows:

	March 2018	December 2017
Income before income tax	**₽ 177,617,410**	₽ 398,770,794
Interest expense	**97,285,507**	238,299,273
Interest coverage ratio	**183%**	167%

Additional Management Discussion and Analysis (for those with variances of more than 5% March 31, 2018 vs. December 31, 2017)

Balance Sheet –

Cash and Other Cash Items decreased by 16% from P452.3 million to P380.9 million due to lower levels of cash in vault and in ATMs ending March 2018. In addition, Due from BSP and Due from Other Banks declined by P350 million and P252 million, respectively. Likewise, Interbank loans receivable decreased to P4.1 billion from P4.6 billion last year.

Financial Assets at Fair Value through Profit or Loss went down by 80% from P416 million to P82 million this year. Meanwhile, Held to Maturity investments increased by 12% from P1.11 billion to P1.25 billion and Available for Sale securities increased by P1.6 billion from P1.1 billion to P2.7 billion.

Property and Equipment (net) decreased by 8% mainly account of assets fully depreciated this period. On the other hand, Deferred Income Tax (DIT) went up to P185.8 million from P136.6 million due to additional DIT booked on impaired accounts as a result of the implementation of PFRS 9 this year. Also, Other resources (net) increased to P407.1 million mainly due to various acquisition of software items.

Total Deposits rose by 11% to P29.6 billion on account of increase in high cost deposits. Also, Outstanding Acceptances went up by P617.4 million from P264.4 million due to higher volume of foreign currency acceptances. Moreover, Manager's Checks and Income Tax Payable went up by P42.5 million and P51.3 million, respectively. Conversely, Bills payable declined by P2.8 billion from P4.3 billion to P1.5 billion at the end of first quarter on account of foreign currency interbank borrowings maturities. Similarly, Derivative Liabilities and decreased by 7% to P58.5 million as of March 31, 2018. On the other hand, Other liabilities went up by 10% mainly on account of higher accounts payable settlement for investment securities purchased during the period. Meanwhile, Retained Earnings was reduced to P4.81 Billion from P4.88 Billion as a result of the Bank's adoption of PFRS 9 partially offset by the Bank's posted earnings for the period.

Income Statement (variance analysis for March 31, 2018 vs. March 31, 2017)

Total interest income posted a steady growth of P69.4 million on the back of interest income from loans and receivable and Interest income on trading and investment securities, which grew by P55.6 million and P13.9 million, respectively. Likewise, interest income on deposits with other banks went up by 11.62%, mainly attributable to higher average volume of Due from BSP. On the other hand, interbank loans receivables decreased by 10% to P11.3 million from P12.5 million last year.

Interest expense on deposit liabilities increased by P29.4 million on account of higher average volume of high cost deposits as compared last year. Interest expense on bills payable went up by P22.1 million to P22.3 million on account of higher average volume of foreign currency borrowings.

Trading gains increased to P17.2 million from P11.4 million while foreign exchange gains went down by P20.4 million from P59.5 million to P39.2 million.

The Bank posted a Recovery from impaired accounts as of March 31, 2018 amounting to P16.9 million versus a provision of P37.1 million in the same period last year.

Depreciation and amortization rose by 13.18% from P15.2 million from P13.4 million as of March 31, 2018. Furthermore, Provision for income taxes was higher year-on-year at P72.3 million vs. P45.2 million last year.

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.

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF CONDITION

(With Comparative Figures for December 31, 2017)
(in Php)

	March 31, 2018	December 31, 2017
	(Unaudited)	(Audited)
RESOURCES		
Cash and Other Cash Items	380,909,779	452,374,266
Due from Bangko Sentral ng Pilipinas	3,142,908,299	3,492,925,784
Due from Other Banks	627,140,606	879,092,880
Interbank Loans Receivable	4,149,657,697	4,618,098,194
Financial Assets at Fair Value through Profit or Loss	82,332,835	416,129,671
Available-for-Sale Investments	2,700,978,734	1,070,821,205
Held-to-Maturity Investments (HTM)	1,245,465,298	1,110,295,691
Loans and Receivables - net	27,804,183,159	27,502,293,563
Property and Equipment - net	142,681,438	154,975,021
Investment Properties	111,791,069	109,776,238
Deferred Income Tax	185,787,706	136,618,524
Other Resources - net	407,127,213	382,871,414
	40,980,963,832	40,326,272,451
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities		
Demand	7,587,464,005	7,312,403,130
Savings	5,797,015,687	5,806,852,492
Time	16,171,896,497	13,582,645,361
	29,556,376,189	26,701,900,983
Derivative Liabilities	58,471,806	63,147,488
Bills Payable	1,458,143,232	4,284,822,838
Outstanding Acceptances	881,847,760	264,437,832
Manager's Checks	77,738,951	35,241,990
Accrued Interest, Taxes and Other Expenses	367,459,986	427,761,749
Income Tax Payable	69,930,449	18,596,133
Other Liabilities	1,306,177,063	1,190,174,108
	33,776,145,436	32,986,083,120
Capital Funds		
Common Stock	2,479,687,310	2,479,687,310
Treasury Stock	(15,951,674)	(15,951,674)
Additional Paid-in Capital	53,513,675	53,513,675
Retained Earnings	4,809,435,700	4,880,412,185
Statutory Reserve	4,981,159	4,981,159
Cumulative Translation Adjustment	1,004,513	8,460,828
Net Unrealized Gain (Loss) on Available-for-Sale Investments	(72,444,294)	(15,506,159)
Net Unrealized Gain (Loss) on Retirement Obligation	(55,407,993)	(55,407,993)
	7,204,818,396	7,340,189,331
	40,980,963,832	40,326,272,451

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF INCOME
(With Comparative Figures for three months ended March 31, 2017)
(in Php)

	January to March	
	2018	2017
INTEREST INCOME		
Loans and receivables	**494,545,546**	438,931,202
Interbank loans receivable	**11,290,151**	12,547,175
Trading and investment securities	**32,144,390**	18,291,436
Deposits with other banks and others	**11,520,605**	10,321,149
	549,500,691	480,090,963
INTEREST EXPENSE		
Deposit liabilities	**74,975,201**	45,537,905
Bills payable and other borrowings and others	**22,310,306**	199,875
	97,285,507	45,737,779
NET INTEREST INCOME	**452,215,184**	434,353,183
Service charges, handling fees and commission income	**57,404,679**	55,363,876
Trading and securities gain - net	**17,220,428**	11,372,584
Foreign exchange gain - net	**39,188,634**	59,539,893
Miscellaneous - net	**22,336,014**	23,367,051
TOTAL OPERATING INCOME	**588,364,939**	583,996,587
Compensation and fringe benefits	**224,991,073**	222,687,309
Provision for (recovery from) impairment and credit losses	**(16,899,508)**	37,072,263
Occupancy and other equipment-related costs	**54,158,589**	52,973,932
Taxes, licenses and documentary stamps used	**43,680,188**	42,495,295
Security, messengerial and janitorial expenses	**33,908,128**	35,436,277
Depreciation and amortization	**15,197,102**	13,427,017
Amortization of software license	**8,397,236**	8,345,994
Miscellaneous	**47,314,722**	45,701,992
TOTAL OPERATING EXPENSES	**410,747,529**	458,140,077
INCOME BEFORE INCOME TAX	**177,617,410**	125,856,510
PROVISION FOR INCOME TAX	**72,254,600**	45,236,745
NET INCOME	**105,362,810**	80,619,764.97
Basic/Diluted Earnings Per Share *	**0.42**	0.33

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
(With Comparative Figures for three months ended March 31, 2017)
(in Php)

	January to March	
	2018	**2017**
NET INCOME	**105,362,810**	80,619,765
OTHER COMPREHENSIVE INCOME (LOSS)		
Net Fair Value Change on Available-for-Sale Investments	**(56,938,135)**	6,377,667
Cumulative Translation Adjustment	**(7,456,315)**	(27,998,495)
Net Unrealized Gain (Loss) on Retirement Obligation		
	(64,394,450)	(21,620,828)
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX	**40,968,361**	58,998,937

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF CHANGES IN EQUITY
(in Php)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Statutory Reserve	Cumulative Translation Adjustments	Net Unrealized Gain on Available-for-Sale Investments	Net Unrealized Gain (Loss) on Retirement Obligation	Total
Balance at December 31, 2017	**2,479,687,310**	**(15,951,674)**	**53,513,675**	**4,880,412,185**	**4,981,159**	**8,460,828**	**(15,506,159)**	**(55,407,993)**	**7,340,189,331**
Net income for the year	-		-	105,362,810		-	-		105,362,810
Cumulative Translation Adjustments	-		-	-		(7,456,315)	-		(7,456,315)
Net unrealized gain on available-for-sale (AFS) investments	-		-	-		-	(56,938,135)		(56,938,135)
Net Unrealized Gain (Loss) on Retirement Obligation									
Total Comprehensive Income for the year	-	-	-	105,362,810	-	(7,456,315)	(56,938,135)	-	40,968,361
PFRS 9				(176,339,296)					(176,339,296)
Balance at March 31, 2018	**2,479,687,310**	**(15,951,674)**	**53,513,675**	**4,809,435,700**	**4,981,159**	**1,004,513**	**(72,444,294)**	**(55,407,993)**	**7,204,818,396**
Balance at December 31, 2016	**2,479,687,310**	**(15,951,674)**	**53,513,675**	**4,592,458,065**	**4,981,159**	**29,882,305**	**(28,926,484)**	**13,508,994**	**7,129,153,350**
Net income for the year	-		-	80,619,765		-	-		80,619,765
Cumulative Translation Adjustments	-		-	-		(27,998,495)	-		(27,998,495)
Net unrealized gain on available-for-sale (AFS) investments	-		-	-		-	6,377,667		6,377,667
Net Unrealized Gain (Loss) on Retirement Obligation									-
Total Comprehensive Income for the year	-	-	-	80,619,765	-	(27,998,495)	6,377,667	-	58,998,936
Acquisition of treasury stock									-
Balance at March 31, 2017	**2,479,687,310**	**(15,951,674)**	**53,513,675**	**4,673,077,830**	**4,981,159**	**1,883,810**	**(22,548,817)**	**13,508,994**	**7,188,152,286**
Balance at December 31, 2016	**2,479,687,310**	**(15,951,674)**	**53,513,675**	**4,592,458,065**	**4,981,159**	**29,882,305**	**(28,926,484)**	**13,508,994**	**7,129,153,350**
Net income for the year	-		-	287,954,120		-	-		287,954,120
Cumulative Translation Adjustments	-		-	-		(21,421,477)	-		(21,421,477)
Net unrealized gain on available-for-sale (AFS) investments	-		-	-		-	13,420,325		13,420,325
Net Unrealized Gain (Loss) on Retirement Obligation	-		-					(68,916,987)	(68,916,987)
Total Comprehensive Income for the year	-	-	-	287,954,120	-	(21,421,477)	13,420,325	(68,916,987)	211,035,981
Acquisition of treasury stock									-
Balance at December 31, 2017	**2,479,687,310**	**(15,951,674)**	**53,513,675**	**4,880,412,185**	**4,981,159**	**8,460,828**	**(15,506,159)**	**(55,407,993)**	**7,340,189,331**

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENT OF CASH FLOWS
(in Php)

	For the three months ended March 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	177,617,410	125,856,510
Adjustments for:		
Provision for (recovery from) impairment and credit losses	(16,899,508)	37,072,263
Depreciation and amortization	15,197,102	13,427,017
Amortization of computer software	8,397,236	8,345,994
Amortization of deferred charges	495	56,903
(Gain) / loss on sale of property and equipment	308	4
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit and loss	333,796,836	(348,785,385)
Loans and Receivables	(460,097,171)	(2,217,939,727)
Other assets	(98,797,432)	(43,957,488)
Increase (decrease) in:		
Deposit liabilites	2,854,475,206	(1,311,356,443)
Manager's checks	42,496,961	(1,907,250)
Accrued interest and other expenses	(60,301,763)	(51,898,580)
Other liabilities	111,327,274	366,523,769
Net cash generated from (used in) operations	2,907,212,952	(3,424,562,414)
Income taxes paid	(5,177,775)	(14,057,813)
Net cash provided by (used in) operating activities	2,902,035,178	(3,438,620,227)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Available-for-sale securities	(1,694,551,979)	(221,598,847)
Investment in bonds and other debt instruments	(135,169,607)	(286,269,803)
Investment in an associate		
Additions to property and equipment	(3,716,876)	(29,156,126)
Proceeds from disposals of property and equipment	1,702,398	2,107,840
Additions to investment properties	(2,904,180)	(25,721)
Net cash provided by (used in) investing activities	(1,834,640,243)	(534,942,656.45)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in:		
Bills payable	(2,826,679,606)	852,720,000
Outstanding Acceptances	617,409,928	(1,677,573)
Net cash provided by (used in) financing activities	(2,209,269,678)	851,042,427
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,141,874,743)	(3,122,520,456)
CASH AND CASH EQUIVALENTS AT BEGINNING 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
Total	9,442,491,124	10,793,650,726
CASH AND CASH EQUIVALENTS AT END OF YEAR PER CASH FLOWS	8,300,616,381	7,671,130,270
CASH AND CASH EQUIVALENTS, END		
Cash and other cash items	380,909,779	353,951,487
Due from Bangko Sentral ng Pilipinas	3,142,908,299	5,071,753,345
Due from other banks	627,140,606	577,781,513
Interbank loans receivable	4,149,657,697	1,667,643,925
Total	8,300,616,381	7,671,130,270
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	564,969,762	466,563,147
Interest paid	(97,033,708)	(45,304,213)
	467,936,054	421,258,934

PART II – OTHER INFORMATION

(none)

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer **CTBC BANK (PHILIPPINES) CORPORATION**

Signature **MR. ANDREW A. FALCON**
(Title) First Vice President
Finance and Corporate Affairs Group Head

Date **May 15, 2018**

Signature **ATTY. MARITESS P. ELBINIAS**
(Title) First Vice President
Corporate Information Officer

Date **May 15, 2018**

Notes to Financial Statements Required Under SRC Rule 68.1

1. Diluted Earnings per share as of March 31, 2018 is P0.42.

2. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines. The Bank's financial statements as of March 31, 2018 are prepared in compliance with new Philippine Financial Reporting Standards (PFRS):

1) The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual financial statements.

2) Seasonal or cyclical events and/or conditions do not significantly affect the interim operations of the bank.

3) Trading gains as of March 31, 2018 amounted to P17.2 million, compared to P11.4 million of the same period last year.

4) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

5) There are no issuances, repurchases, and repayments of debt and equity securities.

6) There are no cash dividends paid separately for ordinary shares and other shares.

7) Segment information for the period ended March 31, 2018 and 2017 are as follows:

	TREASURY GROUP		CORPORATE BANKING		RETAIL BANKING		OTHERS		TOTAL	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Results of operations (in thousands)										
Net interest income	**30,592**	52,717	**119,848**	101,838	**301,812**	279,847	**(37)**	(50)	**452,215**	434,353
Non-interest income	**52,331**	67,881	**10,272**	7,713	**71,312**	72,893	**2,235**	1,156	**136,150**	149,643
Total revenue	**82,923**	120,598	**130,120**	109,551	**373,124**	352,740	**2,199**	1,107	**588,365**	583,997
Non-interest expense	**27,637**	30,292	**41,827**	57,763	**153,789**	190,543	**187,495**	179,542	**410,748**	458,140
Income (loss) before income tax	**55,285**	90,306	**88,293**	51,789	**219,335**	162,197	**(185,296)**	(178,435)	**177,617**	125,857
Income tax provision (benefit)	**43,258**	5,926	**11,666**	35,569	**17,292**	3,741	**38**	1	**72,255**	45,237
Net income (loss)	**12,027**	84,380	**76,627**	16,219	**202,043**	158,456	**(185,334)**	(178,435)	**105,363**	80,620
YTD Average (in Php millions)										
Total assets	**2,205**	1,969	**6,453**	28,594	**3,416**	3,581	**3,419**	525	**15,493**	34,669
Total liabilities	**696**	564	**4,194**	21,598	**4,836**	4,928	**2,278**	519	**12,005**	27,610

8) 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:
   - To comply with the minimum capital requirements set by the Bangko Sentral ng Pilipinas (BSP) pursuant to Circular No. 854;
   - To comply with the requirements of the Internal Capital Adequacy Assessment Process (ICAAP) pursuant to BSP Circular No. 639;

- To cover the resulting treasury shares acquired in relation to the Bank's delisting and tender offer exercise; and
- To provide for buffer to comply with BASEL III requirements.

9) 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 Securities and Exchange Commission (SEC), subject to prior regulatory approval. 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 Php12.7 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, after the payment of pertinent fees.

   On July 21, 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 said law, foreign banks may own up to 100% of domestic subsidiary banks.

10) On October 29, 2014, the BSP issued Circular No. 854, which revised the minimum capital requirement for banks operating in the Philippines. Under the new requirement, the minimum capital for commercial banks with total number of branches between eleven (11) to one hundred (100) shall be Php10 billion. Banks not meeting the minimum capital shall be given a period of five years within which to comply with the said requirement. The Bank, having 24 branches, shall fall under this 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 March 31, 2018, the Bank's total unimpaired capital amount to P6.8 billion.

11) There are no material events subsequent to the end of the interim period that has not been reflected in the financial statements.

12) There are no changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

13) Summary of the Bank's commitments and contingent liabilities:

	As of March 31 2018	As of December 31, 2017
Trust department		
Investment management accounts	Php853,024,722	Php930,421,749
Trust and other fiduciary accounts	606,629,668	635,684,481
	1,459,654,390	1,566,106,230
Forward exchange bought	4,057,777,828	4,763,167,034
Forward exchange sold	3,431,952,774	5,154,887,625
Spot exchange bought	1,573,382,474	688,560,324
Spot exchange sold	1,197,243,147	759,411,645
Inward Bills for collection	849,202,105	1,820,498,694
Unused commercial letters of credit	3,420,826,660	2,736,422,515
Others	469,907,247	825,258,296
	Php16,459,946,625	Php18,314,312,362

14) There are no other material contingencies and any other events or transactions that are material to an understanding of the current interim period.

15) 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.

16) Financial risk disclosures and financial instruments

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

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

- 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).

- Market risk (e.g., foreign exchange risk, interest rate risk, etc.)
  Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, equity prices and other market changes. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities, equities and derivatives.

- 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 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 of the businesses (also referred to as Front office) that take and assume risks; 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.

The Bank, owing to its commercial banking license, engages in retail and corporate lending as well as deposit taking, and securities investment. As such, the Bank's activities result in recognition of financial assets, such as corporate loans, personal loans, mortgage loans, government securities, etc., and/or financial liabilities, such as demand and time deposits, and bills payable. The Bank also enters into plain-vanilla financial derivatives such as forwards and swaps as part of its risk management strategies and client-driven activities.

The Bank has various financial exposures in foreign currencies from FX spots and derivatives transactions, as well as FX-denominated loans and Philippine government securities. As of date, the Bank does not have investments in securities issued by foreign entities.

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

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.

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not quoted in an active market, the fair value is determined by using appropriate valuation techniques incorporating as much as possible market desirable inputs, such as economic indicators and volatility. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

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.

There were no significant changes to the Bank's policies relating to financial instruments and risk management during the quarter-ended.

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

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

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

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

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

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

    - if an entity changes the method of disposal of an asset (or disposal group) - i.e., reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag - then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognizes any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and

    - if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

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

  - *'Continuing involvement' for servicing contracts (Amendment to PFRS 7).* PFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g., if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered ‘continuing involvement.’

- *Offsetting disclosures in condensed interim financial statements (Amendment to PFRS 7).* PFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of PAS 34, *Interim Financial Reporting* require their inclusion.

▪ *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1.

The amendments clarify that:

- Information should not be obscured by aggregating or by providing immaterial information.

- Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

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

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

18) Offsetting Financial Assets and Financial Liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

As of March 31, 2018
in millions of Php

Types of financial assets	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		
				Financial instruments	Cash Collateral received	Net amount
Derivatives-trading assets	61	0	61	0	0	0
Derivatives held for risk management	0	0	0	0	0	0
Reverse sale and repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
Loans and advances to customers	0	0	0	890	890	0
Total	50	0	50	890	890	0

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

As of March 31, 2018
in millions of Php

Types of financial liabilities	Gross amounts of recognized financial liabilities	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: Financial instruments	Related amounts not offset in the statement of financial position: Cash Collateral received	Net amount
Derivatives-trading liabilities	58	0	58	0	0	0
Derivatives held for risk management	0	0	0	0	0	0
Sale and repurchase, securities lending and similar agreements	0	0	0	0	0	0
Customer deposits	0	0	0	0	0	0
Total	58	0	58	0	0	0

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

As of December 31, 2017
in millions of Php

Types of financial assets	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: Financial instruments	Related amounts not offset in the statement of financial position: Cash Collatera received	Net amount
Derivatives-trading assets	76	0	76	0	0	0
Derivatives held for risk management	0	0	0	0	0	0
Reverse sale and repurchase, securities borrowing and similar agreements	0	0	0	0	0	0
Loans and advances to customers	0	0	0	1,207	1,207	0
Total	76	0	76	1,207	1,207	0

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

As of December 31, 2017
in millions of Php

Types of financial liabilities	Gross amounts of recognized financial liabilities	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: Financial instruments	Related amounts not offset in the statement of financial position: Cash Collateral received	Net amount
Derivatives-trading liabilities	63	0	63	0	0	0
Derivatives held for risk management	0	0	0	0	0	0
Sale and repurchase, securities lending and similar agreements	0	0	0	0	0	0
Customer deposits	0	0	0	0	0	0
Total	63	0	63	0	0	0

The tables below reconcile the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out above, to the line items presented in the statement of financial position.

As of March 31, 2018
in millions of Php

Types of financial assets	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	Note
Derivative-trading assets	61	Financial Assets at Fair Value through Profit or Loss	0	0	-
Derivatives held for risk management	0	-	0	0	-
Reverse sale and repurchase, securities borrowing and similar agreements	0	-	0	0	-
Loans and advances to customers	0	Loans and advances to customers	0	0	-

As of March 31, 2018
in millions of Php

Types of financial liabilities	Net amounts	Line item in the statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures	Note
Derivative-trading liabilities	58	Derivative liabilities	0	0	-
Sale and repurchase securities lending and similar agreements	0	-	0	0	-
Derivatives held for risk management	0	-	0	0	-
Customer depositis	0	-	0	0	-

As of December 31, 2017
in millions of Php

Types of financial assets	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	Note
Derivative-trading assets	76	Financial Assets at Fair Value through Profit or Loss	0	0	-
Derivatives held for risk management	0	-	0	0	-
Reverse sale and repurchase, securities borrowing and similar agreements	0	-	0	0	-
Loans and advances to customers	0	Loans and Receivables - net	0	0	-

As of December 31, 2017
in millions of Php

Types of financial liabilities	Net amounts	Line item in the statement of financial position	Carrying amount in statement of financial position	Financial liabilities not in scope of offsetting disclosures	Note
Derivative-trading liabilities	63	Derivative liabilities	0	0	-
Sale and repurchase securities lending and similar agreements	0	-	0	0	-
Derivatives held for risk management	0	-	0	0	-
Customer deposits	0	-	0	0	-

CTBC BANK (PHILIPPINES) CORPORATION
Aging of Loans and Receivables
As of March 31, 2018

Type of Accounts Receivable	Total	1 Month	2 - 3 Mos.	4 - 6 Mos.	7 to 11 Mos.	1 - 2 Years	3 - 5 Years	5 Years - Above	Past Due Accounts & Items in Litigation
a) Trade Receivables									
1) DBTR	747,131,827	255,924,158	115,226,569	287,403,844	-	-			88,577,258
2) IBTR- PESO	1,251,693,458	134,836,902	707,812,231	406,752,195	2,292,129	-			
3) IBTR- USD	18,797,153	18,797,153	-	-	-	-	-		
4) CLA	881,847,760	777,383,638	21,755,241	38,718,831	43,990,050	-	-		
Subtotal	2,899,470,197	1,186,941,850	844,794,041	732,874,869	46,282,179	-	-	-	88,577,258
Less: Allow. For Doubtful Acct.	23,928,583								
Net Trade Receivable	2,875,541,615	1,186,941,850	844,794,041	732,874,869	46,282,179	-	-	-	88,577,258
b) Non - Trade Receivables	2,875,541,615								
1 L & D - DOSRI - BD - HOLD-OUT DEP	668,124	-	-	-	668,124	-	-	-	-
2 L & D - DOSRI - BD - REM/CHM/OTHS	350,000	-	-	-	-	350,000	-	-	-
3 BILLS DISCOUNTED - REG - HO DEP	179,514,915	7,921,227	8,104,198	2,225,338	63,193,218	8,944,768	72,126,166	17,000,000	-
4 NPL - PD - L&D - DOM - BD-REG	69,751,829	-	-	-	-	-	-	-	69,751,829
5 BILLS DISCOUNTED - REG - RM/CM/OT	610,045,290	52,078,000	141,629,134	33,515,969	88,243,122	192,079,065	102,500,000	-	-
6 BILLS DISCOUNTED - CHK DISC - CLEAN	267,533,638	144,829,578	67,853,286	30,133,167	20,971,097	3,746,510	-	-	-
5 BILLS DISCOUNTED - REG - GS	41,900,000	41,900,000	-	-	-	-	-	-	-
6 BILLS DISC-CHK DISC-REM/CHM/OTHS	5,000,000	5,000,000	-	-	-	-	-	-	-
7 NPL - L&D - DOM - BD- CHK DISC	9,663,681	-	-	-	-	-	-	-	9,663,681
8 PD - L & D - DOM - TL - RE - HFC	4,159,828	-	-	-	-	-	-	-	4,159,828
9 L & D - OFFICERS - HOUSING LOAN	3,528,542	-	1,781,092	-	-	891,187	856,262	-	-
10 L & D - OFFICERS - CAR LOAN	11,344,221	1,060,000	537,395	1,604,140	1,295,854	3,542,629	3,304,201	-	-
11 L & D - OFFICERS - MULTI-PURP LN	4,509,785	630,345	245,697	693,649	1,340,533	1,383,225	216,336	-	-
12 L & D - OFFICERS - EMERGENCY LN	257,427	-	-	136,240	121,187	-	-	-	-
13 L & D - STAFF - MULTI-PURP LN	3,055,318	171,519	234,817	452,451	994,949	1,132,286	69,297	-	-
14 L & D - STAFF - EMERGENCY LN	154,353	-	-	51,634	-	102,719	-	-	-
PD - L & D - DOM - OFF & EMP	117,564	-	-	-	-	-	-	-	117,564
15 TIME LOAN - MORTGAG MGR	261,033,560	-	-	66,218,152	-	-	-	194,815,409	-
16 PAST DUE - MORTGAGE MGR	2,772,314	-	-	-	-	-	-	-	2,772,314
17 TIME LOAN - DREAM HOME LOAN	5,746,586	-	-	-	-	-	4,681,225	1,065,361	-
18 NPL - PD - MORTGAGE MGR	9,750,795	-	-	-	-	-	-	-	9,750,795
19 TL-DREAM HOME LOAN-5@ZERO NON-DOSRI	77,393	-	-	-	-	-	-	77,393	-
20 TL-MORT-MAXCSHBACK-20%	172,326,047	91,115,723	27,743,258	53,467,065	-	-	-	-	-
21 TL-MORT-TRADITIONAL	1,431,236,701	-	-	-	154,176,128	418,560,734	765,943,416	92,556,423	-
22 TL-MORT-TRD-PROMO	5,465,584	-	-	-	-	-	-	5,465,584	-
23 PD-TL-MORT-TRADITIONAL	21,072,036	-	-	-	-	-	-	-	21,072,036
24 NPL - PD - TL-MORT-TRADITIONAL	21,103,389	-	-	-	-	-	-	-	21,103,389
25 NPL -PD-TL-MORT-MAXCSHBACK-20%	1,569,512	-	-	-	-	-	-	-	1,569,512
PD-TL-MORT-MAXCSHBACK-20%	820,185	-	-	-	-	-	-	-	820,185
26 TL-DREAM LOAN-CASHBACK	1,043,312	-	-	-	-	-	-	1,043,312	-
27 PD - RESTRUC LOANS - MORTGAGE	5,365,933	-	-	-	-	-	-	-	5,365,933
NPL - PD-L&D-DRM HME-CASHBACK	100,350	-	-	-	-	-	-	-	100,350
28 TIME LOAN- SALARY LOAN	3,885,110,896	586,750,938	479,896,868	744,124,102	1,108,593,616	965,745,373	-	-	-
29 NPL-PD-REST-L&D-PL-PUBLIC	11,003,571	-	-	-	-	-	-	-	11,003,571
30 PD - SALARY LOAN	55,675,224	-	-	-	-	-	-	-	55,675,224
31 NPL - PD - SALARY LOAN	177,002,518	-	-	-	-	-	-	-	177,002,518
32 ITL- SALARY LOANS - NDOSRI	38,541,558	-	-	-	-	-	-	-	38,541,558
33 TIME LOAN - ST - CLEAN	6,789,996,280	3,247,782,911	1,884,044,424	990,353,176	667,815,768	-	-	-	-
34 NPL - PD-L&D - DOM - TL-ST	22,733,483	-	-	-	-	-	-	-	22,733,483
35 TIME LOAN - ST - REM/CHM/OTHS	67,925,000	20,531,000	14,838,000	22,556,000	10,000,000	-	-	-	-
36 TIME LOAN - MT - REM/CHM/OTHS	464,124,995	-	8,883,070	55,000,000	5,288,754	77,783,539	317,169,631	-	-
37 TIME LOAN - LT - HOLD-OUT DEP	11,360,000	-	-	-	-	3,560,000	6,000,000	1,800,000	-
38 TIME LOAN - LT - REM/CHM/OTHS	88,513,541	-	-	5,333,532	-	16,172,222	67,007,787	-	-
39 RESTRUC LOANS - DOM - NDOSRI	16,322,402	-	-	-	-	-	16,322,402	-	-
40 NPL-PD-RESTRUC LOAN-DOM-NDOSRI	75,949,703	-	-	-	-	-	-	-	75,949,703
41 L & D - FX - RES - HOLD-OUT DEP	202,649,424	-	42,771,200	61,131,520	79,283,200	294,704	17,734,400	1,434,400	-
42 L & D - FX - RES - CLEAN	4,739,114,835	1,593,605,464	1,411,419,034	872,192,358	78,240,000	783,657,978	-	-	-
43 L & D - FX - RES - REM/CHM/OTH	159,869,924	82,621,440	9,284,480	5,737,600	15,926,221	-	46,300,183	-	-
44 L & D-FX-NRES-CLEAN-OFF TAX-EX	1,394,278,072	-	-	260,800,000	408,480,152	521,600,000	203,397,920	-	-
45 L & D - FX - RES - CLEAN-OFFSHORE	1,825,600,000	-	-	625,920,000	938,880,000	-	260,800,000	-	-
46 TL-MORTGAGE-DEVELOPER	5,054,723	-	-	-	-	-	5,054,723	-	-
47 DBP - CLEAN - NDOSRI	102,509,653	102,509,653	-	-	-	-	-	-	-
48 TIME LOAN - MT - CLEAN	1,671,003,255	80,347,837	94,579,028	359,465,972	957,946,779	97,182,157	81,481,481	-	-
Subtotal	24,955,377,267	6,058,855,635	4,193,844,983	4,191,112,065	4,601,458,703	3,096,729,097	1,970,965,430	315,257,881	527,153,473
Add: Unamortized Transaction cost	40,786,050								
Less: Allow. For Doubtful Acct.	551,052,754								
Net Non - Trade Receivable	24,445,110,563	6,058,855,635	4,193,844,983	4,191,112,065	4,601,458,703	3,096,729,097	1,970,965,430	315,257,881	527,153,473
Accounts Receivables	366,430,665								
Accrued Interest Receivables	153,025,269								
Unquoted Debt Securities	6,413,890								
	525,869,823								
Less: Allowance for impairment	37,457,658								
	488,412,165								
Net Receivables (a + b)	**27,809,064,343**								
Less: Unearned Interest and Discounts	4,881,184								
	27,804,183,159								

Notes: If the Company's collection period does not match with the above schedule and revision is necessary to make the schedule not misleading, the proposed collection period in this schedule may be changed to appropriately reflect the Company's actual collection period.

ANNEX "G"

MINUTES OF THE ANNUAL MEETING OF THE STOCKHOLDERS OF
CTBC (PHILIPPINES) BANK CORP.
Ascott Bonifacio Global City Manila, 5th Floor, Function Room,
5th Avenue corner 28th Street, Bonifacio Global City, Taguig City 1634 Philippines
June 22, 2017, Thursday, at 9:30 AM

1.0 CALL TO ORDER

1.1 Mr. William Go, Vice Chairman, called the meeting to order at 9:30 a.m. Atty. Regina Padilla-Geraldez, Corporate Secretary, recorded the minutes thereof.

2.0 CERTIFICATION OF NOTICE AND QUORUM

2.1 Atty. Regina Padilla-Geraldez certified that notices had been sent to the stockholders in accordance with the By-Laws of the Bank. Atty. Padilla-Geraldez declared that out of 247,968,731 issued and outstanding shares, 246,925,290 shares or approximately more than 99.60% of the outstanding capital stock were present in person or represented by proxy. A quorum was present for the transaction of business.

3.0 APPROVAL OF THE MINUTES OF THE ANNUAL STOCKHOLDERS' MEETING OF JUNE 22, 2016

3.1 The stockholders read the Minutes. Upon motion made and duly seconded, and there being no objection, the Minutes of the Annual Shareholders' Meeting of June 22, 2016 was declared approved by the Vice Chairman.

4.0 CHAIRMAN'S ADDRESS

4.1 Mr. William Go, Vice Chairman, delivered the Chairman's address to the stockholders.

The highlights were as follows:

The global economy in 2016 can be summed up in one word – tumultuous. The lifting of economic sanctions on Iran, the structural reforms initiated by China, the recently concluded United States elections and the Brexit vote have all contributed towards the increased volatility in an already anxious international markets.

As a result, global trade and investments continued to remain weak for the better part of the year. Economic growth in the United States slowed down, just as growth in the Eurozone economies ended up lower than it were during the previous year. China's economy continued to grow but expectedly at a lower rate, while Japan's efforts towards economic recovery resulted in at best, sluggish growth.

In Taiwan, where our parent bank CTBC Bank is based, the economy fared a little better last year than it did the previous year. The country was finally able to reverse the negative trend of its exports and reflected a slight growth. As a result, Taiwan's economic growth rate finally turned out positive at 1.4 percent. Due mainly to the narrow economic growth margin recorded for the year and the prevailing uncertainties in the international market, the mood in the Taiwanese banking sector remained predominantly cautious.

This notwithstanding, CTBC Bank reported an industry-leading net revenue of NT$ 87.9 billion, a pre-tax income of NT$ 28.9 billion and a consolidated after tax net income of NT$ 23.1 billion. The Bank's pre-tax Return on Equity on a consolidated basis amounted to some 11.89 percent.

More significant than the already impressive financial performance recorded by CTBC Bank last year, the growth in the Bank's total resources and its acquisition of The Tokyo Star Bank, Ltd., has propelled CTBC Bank to the Top 50 banks in Asia in terms of asset size.

The achievements of the Bank did not escape the attention of both domestic and international industry organizations and publications. Finance Asia named CTBC as the "Best Bank in Taiwan" in 2016, and honored the Bank with its 20th Anniversary Platinum Award. In recognition of its institutional banking services, CTBC Bank was named "Derivatives House of the Year, Taiwan" by The Asset, and "Best Trade Finance Bank in Taiwan" by Global Trade Review for the 6th time. The Bank was likewise awarded "Best Private Banking Services Overall in Taiwan" by Euromoney for the 13th year running, and "Best Retail Bank in Taiwan" for the 11th time by The Asian Banker.

All told, 2016 proved to be another banner year for CTBC Bank.

Allow me now to shift our focus to the Philippines were we operate.

An election year normally bodes well for any country, with the domestic economy buoyed up because of election spending and heightened consumer confidence. In the case of the Philippines, the 2016 National Elections only served to further bolster what is already being considered as one of the fastest growing economies in Asia.

Economic activity in the Philippines grew by 6.8 percent in 2016, the highest growth rate recorded by the country in the past three years. Propelled by advances in its manufacturing, trade and real estate sector, the country's economic growth rate outpaced that of China's 6.7 percent, Vietnam's 6.2 percent, Indonesia's 5.0 percent and Malaysia's 3.2 percent. It soon became apparent that notwithstanding the political clatter brought about by the present administration's war on drugs and

President Rodrigo Duterte's unexpected pivot to China, investor confidence and consumer demand remained high through the first quarter of 2017.

While we continue to monitor global, regional and domestic financial developments as they unfold, we in CTBC Bank Philippines remained focused on creating a stable platform for sustainable growth and profitability. We thank former president and CEO Steve Tsai for his dedication and commitment towards attaining the Bank's goals and also delighted to welcome our new president and CEO, Peter Wei, whose industry expertise and wealth of international experience would significantly help propel CTBC Bank Philippines to even greater heights.

Thank you very much, and a good day to all.

5.0 PRESIDENT'S REPORT AND APPROVAL OF THE 2016 ANNUAL REPORT

5.1 Mr. Peter Wei, President and CEO, delivered his report

The highlights of his report are as follows:

Despite the radical changes in local politics and uncertainties in the global market last year, the Philippine economy grew to 6.6% in 2016 from 6.30% in 2015.

Data released by the Bangko Sentral ng Pilipinas (BSP) showed industry-wide aggregate net profit of universal and commercial banks, grew by 14% to PhP136.96 billion in 2016.

For CTBC Bank Philippines, 2016 proved to be an interesting year. While the Philippine economy was steadily improving, the Bank's total resources likewise expanded by 18% to PhP36 billion in 2016 on the back of strong performance in Loans and Receivables, which grew by 8% to PhP23 billion. The Bank also registered a significant jump of 40% in its Deposit level, which stood at PhP27 billion.

As of end December 2016, the Bank's net income before tax inched up to PhP334 million, owing to the increase in revenues which moved up by 6% to PhP2.25 billion. This was pushed mainly by higher trading income which posted hefty growth of PhP157 million to PhP193 million. Net interest income rose by 3%, spurred by a 12% increase in average loan balances.

Notwithstanding the strong performance in terms of revenue, the Bank's audited net income softened to PhP213 million from PhP258 million in 2015, due mainly on account of the increase in provision for income taxes as tax credits were already utilized in 2015.

As a result of its operation, the Bank's Return on Average Equity (ROE) ended at 3.0%, while Return on Average Assets is at 0.7%. Furthermore, the Bank once again manifested its financial strength with a high capital adequacy ratio at 22.55% as of December 2016 – well above industry and regulatory requirement of 10%.

The Bank also exercised continued prudence in its lending operations as its non-performing loan (NPL) ratio as of year-end remained low at 0.70%.

Although much more work remains to be done, CTBC Bank Philippines aims to further improve its market position and profitability by expanding its distribution channels and product offerings to serve the growing needs of its retail and corporate clients while leveraging on the capabilities of its parent bank.

With clear strategies in place, coupled with a supportive parent bank, dedicated team of directors and hardworking employee force, we are confident to march into the coming years with confidence and enthusiasm.

5.2 In connection with the foregoing, the President submitted for approval by the stockholders the Bank's 2016 annual report.

Upon motion of Mr. Wei and there being no objection, the Vice Chairman declared the 2016 Annual Report to the shareholders approved.

6.0 SUBMISSION OF THE AUDITED FINANCIAL STATEMENTS OF THE BANK AND OF THE TRUST AND INVESTMENT SERVICES DIVISION AS OF DECEMBER 31, 2016

6.1 The Audited Financial Statements of the Bank and of the Trust and Investment Services Division as of 31 December 2016 was then submitted for the approval of the stockholders.

Upon motion made and duly seconded and there being no objection, the Vice Chairman declared the Audited Financial Statements of the Bank and of the Trust and Investment Services Division as of 31 December 2016 approved.

7.0 APPROVAL RATIFICATION OF THE ACTS OF THE BOARD OF DIRECTORS, COMMITTEES, AND OFFICERS

7.1 Upon motion of duly made and seconded, and there being no objection, the Vice Chairman declared all the acts, decisions and proceedings of the Board of Directors, Committees, Management and Officers for the year 2016-2017 and since the last annual meeting, ratified.

8.0 ELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS

8.1 Mr. William Go nominated the following as members of the Board of Directors:

Jack Lee
William B. Go
Wei Erh-Chang a.k.a. Peter Wei
C.C. Huang
Frank Shih
Ng Meng Tam as Independent Director
Edwin B. Villanueva as Independent Director

Upon motion made and duly seconded, and there being no objection, the seven (7) nominees were elected as members of the Board of Directors.

9.0 APPOINTMENT OF EXTERNAL AUDITOR

9.1 Upon motion made and duly seconded, and there being no objection, the Vice Chairman declared the accounting firm of R.G. Manabat and Co. ("RGM") duly appointed as the Bank's external auditor.

10.0 CONFIRMATION OF RELATED PARTY TRANSACTION/S

10.1 Upon motion made and duly seconded, and there being no objection, the Vice Chairman declared the renewal of the credit facility in favor of Kinpo Electronics (Phils.) Inc. pursuant to BSP Circular 895 Series of 2015 Guidelines on Related Party Transactions, particularly Section X146.2, ratified.

11.0 ADJOURNMENT

11.1 Upon motion made and seconded, and there being no other matters for consideration by the shareholders, the meeting was adjourned.

ATTY. REGINA PADILLA-GERALDEZ
Corporate Secretary

ZIMAR B. MENDIOLA
2nd Assistant Corporate Secretary

ANNEX "H"

PROPOSED SHAREHOLDERS' RESOLUTIONS TO APPROVE THE AMENDMENTS TO THE ARTICLES OF INCORPORATION AND BY-LAWS

A. AMENDMENT TO ARTICLE SIXTH OF THE ARTICLES OF INCORPORATION

"**RESOLVED**, that Article Sixth of the Articles of Incorporation is hereby amended, to read as follows:

FROM: **SIXTH:** That the Number of Directors of the Corporation shall be seven (7) and that the names, nationalities and residences of the first directors who are to serve until their successors are elected and qualified as provided by the By-Laws, are as follows:

xxx xxx xxx

TO: **SIXTH:** That the Number of Directors of the Corporation shall be **eight (8)** and that the names, nationalities and residences of the first directors who are to serve until their successors are elected and qualified as provided by the By-Laws, are as follows:

Xxx xxx xxx

B. AMENDMENTS TO THE BY-LAWS

1. Amendment to Article III, Section 2 (a) of the Bank's By-Laws

"**RESOLVED,** that Article III, Section 2 (a) of the Bank's By-Laws is hereby amended, to read as follows:

FROM: Section 2. Number, Tenure and Qualifications – (a) The number of directors of the Bank shall be seven (7). Each director must be a registered stockholder of record. Each director shall hold office until the next annual meeting of stockholders and until his successor shall have been elected and qualified.

xxx xxx xxx

TO: Section 2. Number, Tenure and Qualifications – (a) The number of directors of the Bank shall be **eight (8)**. Each director must be a registered stockholder of record. Each director shall hold office until the next annual meeting of stockholders and until his successor shall have been elected and qualified.

xxx xxx xxx

2. Amendment to Article V, Section 2 of the Bank's By-Laws

Another sentence, "All members shall be non-executive directors, majority of whom shall be independent directors, including the Chairman." shall be inserted between the first and second sentences of the first paragraph of Section 2 pursuant to Subsec. X144.1 of BSP Cir. 969 Series of 2017.

The rest of the provisions shall remain.

"RESOLVED, that Article V, Section 2 of the Bank's By-Laws is hereby amended, to read as follows:

FROM: "Section 2. Audit Committee – At least three (3) but not more than five (5) directors designated by an affirmative vote of at least a majority if the Board of Directors, shall together constitute an Audit Committee. The Audit Committee shall audit the overall performance of operating units and branches through the application of the audit rating system, and exercise all powers entrusted to it by the Board of Directors. xxx"

TO: "Section 2. Audit Committee – At least three (3) but not more than five (5) directors designated by an affirmative vote of at least a majority if the Board of Directors, shall together constitute an Audit Committee. **All members shall be non-executive directors, majority of whom shall be independent directors, including the Chairman.** The Audit Committee shall audit the overall performance of operating units and branches through the application of the audit rating system, and exercise all powers entrusted to it by the Board of Directors. xxx"

3. Amendment to Article V, Section 4 of the Bank's By-Laws

Another sentence "All members shall be non-executive directors, majority of whom shall be independent directors, including the Chairman" shall be inserted between the first and second sentences of the first paragraph of Section 4 pursuant to Subsec. X144.2 of BSP Cir. 969 Series of 2017.

The phrase "two (2) of whom shall be independent directors", which is in the first sentence of the paragraph, shall be deleted to avoid redundancy.

The rest of the provisions shall remain.

"RESOLVED, that Article V, Section 4 of the Bank's By-Laws is hereby amended, to read as follows:

FROM: Section 4. Nomination, Remuneration and Governance Committee. – At least three (3) directors but not more than five (5) directors, two (2) of whom shall be independent directors, designated by an affirmative vote of at least a majority of the Board of Directors, shall together constitute the Nomination, Remuneration and Governance Committee ("NRGC"). The NRGC shall (i.) review and evaluate the qualification of all persons nominated to the Board as well as those nominated to other positions requiring the appointment by the Board of Directors; (ii.) adopt such procedures as may be required by the Securities and Regulation Code and its Implementing Rules and Regulations and its amendments as well as rules and regulations issued by the Bangko Sentral ng Pilipinas relating to the nomination and election of independent directors; (iii) conduct a performance review on a semi-annual basis; and (iv.) exercise all powers entrusted to it by the Board of Directors. xxx

TO: Section 4. <u>Nomination, Remuneration and Governance Committee</u>. – At least three (3) directors but not more than five (5) directors, designated by an affirmative vote of at least a majority of the Board of Directors, shall together constitute the Nomination, Remuneration and Governance Committee ("NRGC"). <u>**All members shall be non-executive directors, majority of whom shall be independent directors, including the Chairman.**</u> The NRGC shall (i.) review and evaluate the qualification of all persons nominated to the Board as well as those nominated to other positions requiring the appointment by the Board of Directors; (ii.) adopt such procedures as may be required by the Securities and Regulation Code and its Implementing Rules and Regulations and its amendments as well as rules and regulations issued by the Bangko Sentral ng Pilipinas relating to the nomination and election of independent directors; (iii) conduct a performance review on a semi-annual basis; and (iv.) exercise all powers entrusted to it by the Board of Directors. xxx

4. **Resolution authorizing the Board to do all such acts necessary and incidental to comply with BSP Circular 969 Series of 2017, the SRC and all the requirements of the BSP and SEC.**

   "**RESOLVED FURTHER,** that the Board of Directors is hereby authorized to amend, modify, and/or revise the foregoing resolutions, and adopt such other resolutions, and do such acts necessary and incidental for the Bank to be in compliance with BSP Circular 969 Series of 2017, the Securities Regulation Code and its amendments, and the relevant requirements of the *Bangko Sentral Ng Pilipinas* and the Securities and Exchange Commission and other regulatory agencies."