



**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 25, 2019, Thursday, at 9:30 AM** at **F1 Hotel Manila 32nd Street Bonifacio Global City, Taguig 1634, Philippines.**

**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 5 July 2018
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 2018
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:
  - i.) Amendment to the Articles of Incorporation  
ARTICLE SEVENTH – Increase in Authorized Capital Stock
  - ii.) Resolutions in connection with the Capital Build Up Program
9. Election of Members of the Board of Directors
10. Appointment of External Auditor for the Bank and the Trust and Investment Services Department
11. Transaction of such Other Matters as May Come Before the Meeting

Registration starts at 8:30 o'clock a.m. Only stockholders of record at the close of business hours on **June 21, 2019** 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 19<sup>th</sup> Floor Fort Legend Towers, 3<sup>rd</sup> Avenue corner 31<sup>st</sup> Street, Bonifacio Global City, Taguig City, Philippines. Please submit your proxies to undersigned whose contact numbers are as follows: Direct Line: +63 (2) 8118503; Fax: +63 (2) 811 8594; Mobile: +63 (917) 809 5291; Email add: zimar.mendiola@ctbcbank.com.ph. All proxies shall be received by the Corporation on or before the close of business hours of **July 10, 2019 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, 17 June 2019.

  
**ZIMAR B. MENDIOLA**  
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  
 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:

**Fort Legend Towers,  
Third Avenue corner 31<sup>st</sup> Street  
Bonifacio Global City, Taguig City**

Postal Code:

**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 25, 2019 (Thursday)**  
Time : **9:30 a.m.**  
Place : **F1 Hotel Manila 32nd Street Bonifacio Global City, Taguig  
1634, Philippines**

9. Approximate date of which the Information Statement is to be first sent or given to security holders: **July 4, 2019**

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 May 30, 2019:

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



- c. Amount of Debt Outstanding as of December 31, 2018  
(Total liabilities including deposits, bills payable, accrued expenses, etc.)  
**Php 47,010,912,322.**

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

\_\_\_\_\_ Yes                        X   No

## INFORMATION REQUIRED IN INFORMATION STATEMENT

### **A. GENERAL INFORMATION**

#### **WE ARE NOT ASKING FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY**

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

- (a) Date : **July 25, 2019**  
Time : **9:30 a.m.**  
Place : **F1 Hotel Manila 32nd Street Bonifacio Global City, Taguig 1634,  
Philippines**

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

- (b) **APPROXIMATE DATE OF WHICH THE INFORMATION STATEMENT IS TO  
BE FIRST SENT OR GIVEN TO SECURITY HOLDERS: July 4, 2019**

#### **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 Revised 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. CONTROL AND COMPENSATION INFORMATION**

### **Item 4. *Voting Securities and Principal Holders Thereof***

(a) Number of Shares Outstanding as of May 30, 2019:

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 21, 2019 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 21, 2019** 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. Cumulative Voting for Election of Directors - 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 May 30, 2019**

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

<b>Title of Class</b>	<b>Name, address of record owner and relationship with issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>Percent</b>
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 April 16, 2019:

<b><u>NAME</u></b>	<b><u>NUMBER OF SHARE</u></b>	<b><u>PERCENTAGE</u></b>
1. China Life Insurance Co., Ltd.	583,440,303	2.92%
2. Yi Kao Investment Co., Ltd.	567,580,574	2.84%
3. Fubon Life Insurance Co., Ltd.	442,656,943	2.21%
4. Government of Singapore	375,664,571	1.88%
5. Nan Shan Life Insurance Co., Ltd.	373,330,053	1.87%
6. Shih Kong Life Insurance Co., Ltd.	361,313,335	1.81%
7. CTBC Bank Trust Account for CTBC Financial Holding Employee Welfare Savings Committee	335,597,466	1.68%
8. Chuan Wei Investment Co., Ltd.	313,835,344	1.57%
9. Labor Pension Fund	313,157,277	1.57%
10. Bank of Taiwan Co., Ltd.	310,876,426	1.55%

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 May 30, 2019:

### a. Directors

<i>Title of Class</i>	<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common	Jack Lee	1	Taiwanese	0%
Common	William B. Go	53	Filipino	0%
Common	YG Chen	1	Taiwanese	0%
Common	CC Huang	1	Taiwanese	0%
Common	Edwin B. Villanueva	1	Filipino	0%
Common	Ng Meng Tam	1	Filipino	0%
Common	Alexander A. Patricio	1	Filipino	0%
Common	Frederick E. Claudio	1	Filipino	0%

### b. Executive Officers as of May 30, 2019

<i>Title of Class</i>	<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common	YG Chen	1	Taiwanese	0%

### c. Directors and Officers

The aggregate shareholding of the directors and executive officers amounted to 60 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

<b>Name</b>	<b>Nationality</b>	<b>Age</b>	<b>Position</b>	<b>Period Served</b>
Jack Lee	Taiwanese	65	Chairman	Oct. 26, 2011 to present
William B. Go	Filipino	79	Vice-Chairman	Sep. 1995 to present
YG Chen	Taiwanese	63	Director	Sept. 26, 2018 to present
			OIC-President & CEO	March 18, 2019 to June 25, 2019
CC Huang	Taiwanese	56	Director	June 26, 2014 to present
Edwin B. Villanueva	Filipino	69	Independent Director	Nov. 25, 2002 to present
Ng Meng Tam	Filipino	73	Independent Director	Oct. 25, 2007 to present
Alexander A. Patricio	Filipino	67	Independent Director	Dec. 12, 2018 to present
Frederick E. Claudio	Filipino	55	Director	May 29, 2019 to present
			President and CEO	Effective June 26, 2019 to serve the remaining term of YG Chen

## 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, has been Chairman of the Board since 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 65 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., Serico, Inc., and Gama Enterprises, Inc.; Chairman and President of The Big Blue Sky Realty Corporation, and GGS Holdings, 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 79 years old.

**CHEN YEUN-GINN** a.k.a. James Chen and Y.G. Chen, Taiwanese, was appointed as member of the Board on September 26, 2018. He obtained his Masters in Business of Economics in Nankai University in China, and International Trade Department in Tamkang University, Taiwan. He is currently Head of South East Asia Region Division of CTBC Bank Co., Ltd. He was CEO, Japan Business of CTBC Financial Holding Co., Ltd. from 2013 to 2017. Prior to that, he served various positions with Chang Hwa Bank as President from 2012-2013, Executive Vice President from 2007-2012, Head of International Banking Division from 2005-2007, Head of Treasury Division from 2004-2005, and General Manager, London Branch from 2000-2004. He is 63 years old.

**HUANG CHIH-CHUNG** a.k.a. C.C. Huang, Taiwanese, has been a member of the Board since 26 June 2017. He 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 56 years old.



**FREDERICK E. CLAUDIO**, Filipino, earned his Interdisciplinary Studies degree from Ateneo de Manila University. He was elected member of the Board on May 29, 2019. He joined the Bank in October 2018 as Executive Vice President and Head of Institutional Banking Group. Mr. Claudio started his banking career in 1986 at Far East Bank and Trust Company, where he quickly moved up the corporate ladder. In 1989, he joined Metrobank where he gained his first exposure to corporate banking. Mr. Claudio decided to return to Far East Bank and Trust Company in 1993 where he gained deeper understanding of corporate banking. A few years later, Mr. Claudio joined Unionbank where he spent the next twenty-three years of his career holding a variety of management and business leadership roles. Before joining CTBC Bank, he was Executive Vice President and Center Head of Corporate Banking Group. He is 55 years old.

## **2. Independent Directors**

### **2.1 Incumbent Independent Directors**

The following are the incumbent Independent Directors:

**NG MENG TAM**, Filipino, has been an Independent Director of the Bank since 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 73 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 69 years old.

**ALEXANDER A. PATRICIO**, Filipino, is an independent director, who was elected to the Board on July 5, 2018 and assumed the post on December 12, 2018. He 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 also 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 2012-2013, 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 67 years old.

## **2.2 Final List of Candidates for 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 Messrs. Edwin B. Villanueva (recommended by Jack Lee, a director of the Bank) and Alex A. Patricio (recommended by C.C. Huang, also a director of the Bank) and Stephen D. Sy (recommended by William B. Go also a director of the Bank) for nomination as Independent Directors. Messrs. Edwin B. Villanueva, Alex A. Patricio, and Stephen D. Sy are not related to Messrs. Jack Lee, C.C. Huang, and William B. Go respectively.

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.

The qualifications of Messrs. Edwin B. Villanueva and Alexander A. Patricio are as aforesaid. The qualifications of the new nominee Messr. Stephen D. Sy are as follows.

STEPHEN D. SY, Filipino, obtained his Master of Science in Management from Stanford University, U.S.A. and his Bachelor of Science in Industrial Engineering from the University of the Philippines. He is currently President and CEO of the following companies: SLA Prime Ventures Corp. from 2007 to present, Focus Global Inc. from 1991 to present, and Focus Palantir Inc. from 2013 to present. He is also a member of the Board of Director of Lian Hong Co., Inc. from 1980 to present. He is 68 years old.

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:

**CHEN YEUN-GINN** a.k.a. James Chen and. Y.G. Chen, Taiwanese, was appointed OIC President and CEO on March 18, 2019 upon the resignation of Erh-Chang Wei a.k.a. Peter Wei effective on the same date. On May 29, 2019 he resigned as OIC President and CEO effective June 26, 2019 but will remain as Director. Mr. Y.G. Chen obtained his Masters in Business of Economics in Nankai University in China, and International Trade Department in Tamkang University, Taiwan. He is currently Head of South East Asia Region Division of CTBC Bank Co., Ltd. He was CEO, Japan Business of CTBC Financial Holding Co., Ltd. from 2013 to 2017. Prior to that, he served various positions with Chang Hwa Bank as President from 2012-2013, Executive Vice President from

2007-2012, Head of International Banking Division from 2005-2007, Head of Treasury Division from 2004-2005, and General Manager, London Branch from 2000-2004. He is 63 years old.

**FREDERICK E. CLAUDIO**, Filipino, earned his Interdisciplinary Studies degree from Ateneo de Manila University. On May 29, 2019 he was appointed by the Board as President and CEO effective June 26, 2019 to serve the remaining term of OIC Y.G. Chen. He joined the Bank in October 2018 as Executive Vice President and Head of Institutional Banking Group. Mr. Claudio started his banking career in 1986 at Far East Bank and Trust Company, where he quickly moved up the corporate ladder. In 1989, he joined Metrobank where he gained his first exposure to corporate banking. Mr. Claudio decided to return to Far East Bank and Trust Company in 1993 where he gained deeper understanding of corporate banking. A few years later, Mr. Claudio joined Unionbank where he spent the next twenty-three years of his career holding a variety of management and business leadership roles. Before joining CTBC Bank, he was Executive Vice President and Center Head of Corporate Banking Group. He is 55 years old.

**LOLITO RAMON A. CERRER, JR.**, Filipino, earned his AB Philosophy degree from the Ateneo De Manila University. He is Senior Vice President and Consumer Finance Sales Unsecured Head in April 2017. Prior to joining CTBC Bank, he was 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 56 years old.

**JUSTINE BENEDICT G. DELA ROSA**, Filipino, acquired his AB Economics degree and BS Management of Financial Institutions degree from De La Salle University. He is Senior Vice President and Trading Desk Department Head of Treasury Group. His career in banking started in 1997, when he was selected to be part of Solid Bank's Officer Development Program. Upon completion of the program, he chose to start a career in Treasury as a Liquidity Trader. In Mr. Dela Rosa's more than 18 years with CTBC Bank, he has quickly moved up the corporate ladder and has assumed positions of increasing responsibility, most recent of which was his appointment as full-fledged Department Head in 2006. Mr. Dela Rosa is 44 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 58 years old.

**REMO ROMULO M. GARROVILLO, JR.**, Filipino, holds an AB Economics degree from Ateneo de Manila University. He joined CTBC Bank on December 09, 2014 as Senior Vice President and Head of Global Transaction and Other Banking Channels. He is

currently the Officer-in-Charge of the Bank's Retail Banking Group. Prior to CTBC Bank, he was Director of Merchant Acquisition of Globe Telecom. He started his banking career at Union Bank of the Philippines in 1999, initially as Customer Service Officer and later on as Cash Solutions Manager. In 2003, he joined Philippine National Bank (PNB) as Assistant Vice President and Head of its e-Business Solutions Division. After his three-year stint with PNB, he moved to East West Banking Corporation in 2006 where he was Head of the Product Development and Marketing Support Division. In 2007, he joined Rizal Commercial Banking Corporation (RCBC) as Assistant Vice President of Channel Management and Product Development. He left RCBC as Senior Vice President and Head of Global Transactions Services. Mr. Garrovillo is 40 years old.

**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 48 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 55 years old.

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

**MARVIN I. TIBURCIO**, Filipino, obtained his Bachelor of Arts in Management Economics from Ateneo De Manila University. He is currently Senior Vice President and Head of Middle Market Department of Institutional Banking Group. Mr. Tiburcio joined CTBC Bank in 2008. 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 48 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 102 of the Bank's Audited Financial Statements for the fiscal year ended as of December 31, 2018, attached as Exhibit 2 of this Report, discusses the nature of such Related Party Transactions, which discussion is incorporated hereto by reference.

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

**(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 Directors and Executive Officers**

Name	I N M I L L I O N P E S O S			
	Annual Salary	Bonus	Others	Total
<b><u>2017</u></b>				
Executives (5)	40.77	5.33	17.55	63.65
<b><u>2018</u></b>				
Executives (5)	36.20	3.28	23.80	63.28
<b><u>2019</u></b>				
Executives (5)	34.96	5.31	8.13	48.40
(Estimate)				
Directors and Officers Unnamed	21.10	3.24	6.35	30.69

The aggregate compensation by the Bank to its Directors, excluding the above executives and other officers, amounted to approximately P8.65 million in 2018. Out of this P8.65 million, the amount of P1.46 million was paid as per diem for Board meeting attendance and P1.05 million for Board Committee meeting attendance. For the year 2019, it is estimated that approximately Php8.68 million may be paid to the Directors.

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

Frederick E. Claudio	Executive Vice-President; President and CEO effective June 26, 2019
Oliver D. Jimeno	Executive Vice-President
Maria Gretchen S. Macabasco	Senior Vice-President
Remo Romulo M. Garrovillo, Jr.	Senior Vice-President
Lolito Ramon A. Cerrer, Jr.	Senior Vice-President

### **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 2018 and 2017, 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.

**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:

<b>Fiscal Year</b>	<b>Amount</b>
<b>RGM</b>	
For 2016 paid in 2016	Php616,000.00
For 2016 paid in 2017	Php400,400.00
For 2017 paid in 2017	Php739,200.00
For 2017 paid in 2018	Php492,800.00
For 2018 paid in 2018	Php739,200.00
For 2018 paid in 2019	Php554,400.00

To date, RGM has unbilled charges of P408,685.2 for 2018 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**

**(1) Common Stock/Shares**

The issuance of the following common shares to Parent Bank CTBC Bank Co., Ltd. for cash at the share price of P29.755 per share as approved by the Board on April 30, 2019, shall be submitted for ratification by the Shareholders.

a. Treasury Shares	:	484,920
b. Remaining shares from the existing authorized capital stock (ACS)	:	52,031,269
c. Shares from the increase in the ACS subject to the approval by the Securities and Exchange Commission of the amendment to the Articles of Incorporation	:	48,307,202
Total	:	100,823,391

The Board approval of the issuance of the shares to Parent Bank is consistent with Article Eleventh of the Bank's Articles of Incorporation as described in Item 17.

The common shares to be issued shall have no dividend, voting nor preemption rights other than those stated in the By-laws and applicable laws, nor shall have other material rights. The issuance will not result in the change of control of the registrant. Parent Bank CTBC Bank Co., Ltd. shall remain the majority shareholder of the Bank, and there will be no significant effect upon the rights of other existing security holders.

The Bank is expected to receive the amount of Two Billion Nine Hundred Twenty Eight Million Nine Hundred Forty One Thousand Four Hundred Thirty Five Pesos (Php2,928,941,435.00) in cash from the issuance.

The issuance form part of the Bank's capital build up program to comply with the Bangko Sentral ng Pilipinas ("BSP") Circular No. 854 Series of 2014 entitled Minimum Capitalization of Banks. Pursuant to the Circular, the Bank is required to have an unimpaired capital of Php10 Billion by November 2019. No further authorization for issuance of the securities by a vote of security holders will be solicited prior to such issuance.

**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, 2018, attached hereto as **Annex “F”**;
- (g) Unaudited Financial Statements as of the end of March 31, 2019, 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 2018 and 2019.

**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 July 5, 2018 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 2018 (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/Explanation:

The Bank has to comply with the Bangko Sentral ng Pilipinas (“BSP”) Circular No. 854 Series of 2014 entitled Minimum Capitalization of Banks. Pursuant to the Circular, the Bank is required to have an unimpaired capital of Php10 Billion by November 2019.

The Bank's Capital Build Up Program to meet the required capital as approved by the BSP consists of the following:

- (i.) Income from operations; and
- (ii.) Capital infusion by Parent Bank, CTBC Bank Co., Ltd.

For the Capital Build Up Program, the following were approved by the Board in its April 30, 2019 meeting.

- (i.) Amendment to Article Seventh of the Articles of Incorporation increasing the authorized capital stock from 3Billion Pesos to 4 Billion Pesos
  - (ii.) Issuance of the following common shares to Parent Bank CTBC Bank Co., Ltd. at the share price of P29.755 per share.
    - a. Treasury Shares : 484,920
    - b. Remaining shares from the existing authorized capital stock (ACS) : 52,031,269
    - c. Shares from the increase in the ACS subject to the approval by the Securities and Exchange Commission of the amendment to the Articles of Incorporation : 48,307,202
- Total : 100,823,391

The Board approval of the issuance of the shares to Parent Bank is consistent with Article Eleventh of the Bank's Articles of Incorporation, to wit:

ELEVENTH: Unless otherwise determined by the Board of Directors, no holder of stock of the Bank shall be entitled as such, as a matter of right, to purchase or subscribe for any stock of any class which the Bank may issue or sell, whether or not exchangeable for any stock of the Bank of any class or classes and whether out of unissued shares authorized by the articles of incorporation of the Bank as originally filed or by any amendment thereof or out of shares of stock of the Bank acquired by it after the issue thereof, and whether issued for cash, labor done, personal property, or real property, or leases thereof. Nor, unless otherwise determined by the Board of Directors, shall any holder of any shares of the capital stock of the Bank be entitled as such, as a matter of right, to purchase or subscribe for any obligation which the Bank may issue or sell that shall be convertible into or exchangeable for any shares of stock of the Bank of any class or classes, or to which shall be attached or appurtenant to any warrant or warrants or any other instrument or instruments that shall confer upon the holder or holders of such obligation the right to subscribe for or purchase from the Bank any shares of its capital stock of any class or classes.

**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.

2. Appointment of External Auditor for the Bank and the Trust and Investment Services Department for the Calendar Year 2019.

The Bank's Board of Directors in its meeting held on April 30, 2019 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 2019 subject to ratification by the shareholders in the scheduled meeting.

3. Resolutions in connection with the Bank's Capital Build Up Program. The resolutions are also in **Annex "H"**.

### **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.**

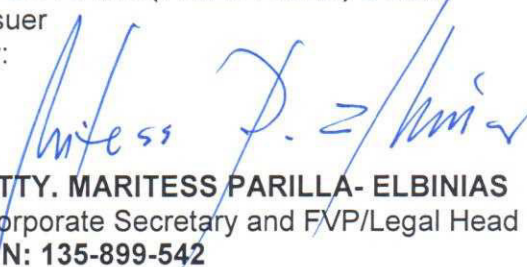
After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this report is true, complete and correct.

This report is signed in the City of Taguig on June 17, 2019.

**CTBC BANK (PHILIPPINES) CORP.**

Issuer

By:



**ATTY. MARITESS PARILLA-ELBINIAS**

Corporate Secretary and FVP/Legal Head

**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 22<sup>nd</sup> Floor, Fort Legend Towers, Third Avenue corner 31<sup>st</sup> 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 DESCRIPTION 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. CTBC Ltd. shares increased to 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.

Based on the data as of December 31, 2018 posted by Business World, out of the forty five (45) universal and commercial banks operating in the Philippines, the Bank ranked 25th in terms of Total Assets; 22nd in terms of Total Loans; 25th in terms of Total Deposits; and 24th in terms of Total Capital.

## **(2) Business of Issuer**

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

### **PESO DEPOSITS**

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

### **FOREIGN CURRENCY DEPOSITS**

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

### **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

### **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

### **TRUST AND INVESTMENT SERVICES**

Investment Management Account  
Personal Management Trust  
Employee Benefit Plan Management-Retirement Fund  
CTBC Money Market Fund (a Peso-Denominated Unit Investment Trust Fund)  
CTBC Balanced Feeder Fund (a Peso-

**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 (Retail and Corporate)  
 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)

Denominated Unit Investment Trust Fund)  
 CTBC Stock Index Fund Feeder Fund (a  
 Peso-Denominated Unit Investment Trust  
 Fund)  
 Escrow Agency  
 Mortgage Trust Indenture

**REMITTANCE SERVICES/TELEGRAPHIC TRANSFERS**

Inward Remittances  
 Outward Remittances

**TRADE SERVICES**

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

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

<i>Major Segment</i>	<i>2017</i>	<i>2018</i>
<b>Portfolio Products</b>	54.86%	58.25%
<b>Transactional Banking Products</b>	23.22%	22.44%
<b>Exposure Management Products</b>	13.86%	11.28%

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

**Distribution Network.** The Bank's products and services are made available to its clients through its offices, branch network, all automatic teller machines (ATMs), and

for some services/products, thru its 40 ATMs and other ATM networks. Likewise, some products can now be accessed through internet and mobile banking channels and other electronic channels i.e. interactive voice response system, internet and short message system (SMS). In addition to its Main Office Branch in Bonifacio Global City, the Bank operates 24 branches as of end of December 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 supplier. - Not applicable.**

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

**Transactions with and/or dependence on related parties.** Except in the ordinary course of business such as DOSRI transactions 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”. The mark “Salary Stretch” is pending registration at the Intellectual Property Office. As to other licenses, the Bank is a registered Government Securities Eligible Dealer (GSED) with Broker Dealer of Securities Functions.

**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 March 31, 2019, the Bank had six hundred sixty two (662) employees composed of 383 officers and 279 staff, with 632 regular employees and 30 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 13<sup>th</sup> month pay, mid-year bonus, Christmas bonus, profit sharing/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 $\Delta$ NII) focuses on changes in interest income and expense within a year, hence, a short-term perspective. The analysis of such impact on EVE (1bp $\Delta$ EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on. Accordingly, both delta Net Interest Income and delta Economic Value of Equity limits in relation to the interest rate sensitivity of the banking book have been established by Management.

In addition to financial risks, the Bank is also exposed to operations risks. Operational risk is defined as the risk of loss 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 risks such as Market, Credit or Liquidity Risk. 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 1<sup>st</sup> quarter of 2010 to 1<sup>st</sup> 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, 2019 is 112.

Common Shares outstanding as April 30, 2019 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, 2019 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	31,078	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, Yeun-Ginn Chen and Chih-Chung Huang 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 Alexander Patricio as Members. The NRGK which also functions as the Bank’s “Committee on Corporate Governance” and “Compensation and Remuneration Committee” is responsible for ascertaining that the Board seats, including those of Independent Directors, as well as other positions that necessitate Board appointment, are filled by individuals who meet the required qualifications as set forth in the by-laws of the Bank. It oversees the periodic performance evaluation of the Board, its Committees, and the Bank’s Executive Management, as well as conducts an annual self-evaluation of its performance. In its assessment of a director’s performance, it considers competence, candor, attendance, preparedness, and participation in meetings. It monitors not only the Board’s performance, effectiveness, and observance of corporate governance principles, but also those of the various other committees and the Executive Management of the Bank. Further, it adopts guidelines for directors serving on multiple boards and makes recommendations to the Board on the continuing education of directors, their assignment to Board committees, succession, and remuneration. It also approves the hiring and promotion of the Bank’s Group Heads. Likewise, it is also involved in Human Resources matters such as the review and revision of the Performance Management System, Management Succession Plan, Organizational Structure, Headcount Management, Compensation and Benefits Policy, Merit Increase, and Performance Bonus distribution.
- The Audit Committee is headed by Independent Director Edwin B. Villanueva as Chairman, with Alexander A. Patricio 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 Alexander A. Patricio as Chairman, with Yeun-Ginn Chen, Chih-Chung Huang, Edwin B. Villanueva, Ng Meng Tam, 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, Yeun-Ginn Chen, Chih-Chung Huang 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 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%.



## **FY 2018 Compared to FY 2017**

Total resources of the Bank expanded by 35% to Php54.37 billion this year as compared to Php40.33 billion level of previous year. These were mainly attributed to growth in Loans and receivables – net, which increased by 28% to Php35.20 billion from Php27.50 billion in December 2017 level, as corporate loan portfolio posted a robust growth. Meanwhile, Deposit Liabilities registered an increase of 36% to Php36.36 billion from Php26.70 billion in 2017.

For the year ending December 31, 2018, CTBC audited net income softened to Php237 million from Php288 million in 2017. This bottom-line figure is lower than 2017 net income mainly on account of increase in provision for income taxes at Php180 million vs. Php111 million in 2017. The increase in 2018 income tax is due to the decrease in deductible expenses attributed to RBU operations. This performance translated to a 3.3% return on equity (ROE) and 0.5% return on assets (ROA).

On the other hand, net income before tax inched up to Php418 million from last year's Php399 million. The higher pretax income was mainly attributed to the increase in net interest income which moved up by 8.7% to Php1.96 billion from Php1.81 billion. The improvement in net interest income was spurred by a 25% increase in average loan balances, which grew by Php6.3 billion. The Bank set aside Php214 million as provisions for impairment and credit losses for the year, this is Php14 million higher than last year's Php200 million provisions.

Non-performing loans (NPL) ratio as of December 31, 2018 increased to 1.36% from 0.72% in December 2017. The NPL coverage, on the other hand, improved to 110% from 95% as of end of last year. The Bank's capital adequacy ratio stood at 16.3% as of year-end.

## Key Financial Indicators

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

	December 31, 2018	December 31, 2017
Return on Average Equity (ROE)	3.3%	4.0%
Return on Average Assets (ROA)	0.5%	0.8%
Cost-to-Income Ratio	74.2%	74.5%

	December 31, 2018	December 31, 2017
Non-Performing Loan Ratio (NPL)	1.36%	0.72%
Non Performing Loan Cover	110%	95%
Capital Adequacy Ratio	16.3%	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 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, 2018**

*Liquidity Ratio*

The ratio for the years 2018 and 2017 are as follows:

	2018	2017
Net liquid assets	<b>P7,521,225,968</b>	<b>P6,581,471,674</b>
Total deposits	<b>36,361,391,250</b>	<b>26,701,900,983</b>
Ratio of net liquid assets to total deposits	<b>20.7%</b>	<b>24.6%</b>

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 2018 and 2017 are as follows:

	2018	2017
Total liabilities	<b>P47,010,912,322</b>	<b>P32,986,083,120</b>
Total equity	<b>7,363,985,061</b>	<b>7,340,189,331</b>
Ratio of debt to equity	<b>638.4%</b>	<b>449.4%</b>

*Assets to Equity Ratio*

The ratio for the years 2018 and 2017 are as follows:

	2018	2017
Total assets	<b>P54,374,897,383</b>	<b>P40,326,272,451</b>
Total equity	<b>7,363,985,061</b>	<b>7,340,189,331</b>
Ratio of total assets to equity	<b>738.4%</b>	<b>549.4%</b>

*Interest Rate Coverage Ratio*

The ratio for the years 2018 and 2017 are as follows:

	2018	2017
Income before income tax	<b>P417,512,292</b>	<b>P398,770,794</b>
Interest expense	<b>615,258,434</b>	<b>238,299,273</b>
Interest coverage ratio	<b>67.9%</b>	<b>167.3%</b>

*Profitability Ratios*

The ratio for the years 2018 and 2017 are as follows:

	2018	2017
a.) Net income	<b>P237,355,239</b>	<b>P287,954,120</b>
b.) Average total equity	<b>7,215,686,789</b>	<b>7,279,470,459</b>
Return on average equity (a/b)	<b>3.3%</b>	<b>4.0%</b>
c.) Net income	<b>P237,355,239</b>	<b>P287,954,120</b>
d.) Average total assets	<b>47,671,052,392</b>	<b>37,982,896,841</b>
Return on average assets (c/d)	<b>0.5%</b>	<b>0.8%</b>
e.) Net interest income	<b>P1,963,249,288</b>	<b>P1,805,815,596</b>
f.) Average interest earning assets	<b>45,648,452,999</b>	<b>37,690,295,706</b>
Net interest margin on average earning assets (e/f)	<b>4.3%</b>	<b>4.8%</b>

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

**Balance Sheet –**

Total resources of the Bank grew by 35% or P14 billion year on year. The growth was spread across various financial assets.

Cash and other cash items increased by 12% from P452M to P505M this year.

Due from Bangko Sentral ng Pilipinas went up by 43% from P3.5 billion to P5.0 billion. Likewise, Due from other banks increased by 44% from P879 million to P1.3 billion. Also, Interbank loans receivable rose from P4.6 billion to P6.1 billion in December 2018 mainly due to increase in local currency lending this year as compared last year.

Financial assets at Fair Value through Profit or Loss (FVPL) dropped to P127.4 million from P416.1 million due to decrease in the volume of peso – government securities. Meanwhile, Financial Assets at Fair Value through Other comprehensive Income (FVOCI) rose to P2.4 billion from P1.0 billion and Investment Securities at Amortized Cost (AC) increased to P2.8 billion from P1.1 billion mainly attributable to higher volume of foreign currency denominated securities.

Loans and receivables (net) went up by 28% from P27.5 billion to P35.2 billion on account of additional corporate loans booked during the period.

Property, Plant, & Equipment (net) decreased by 26% from P154.98 million to P113.97 million mainly due to depreciation of computer equipments. On the other hand, Investment Properties rose to P172.2 million from P109.8 million on account of various foreclosures during the year. Also, Deferred Income Tax (DIT) increased by 47% from P136.6 million to P201.0 million.

Deposit liabilities increased by 36% from P26.7 billion to P36.4 billion mainly attributable to the increase in time deposits. Bills payable also increased by P3.6 billion due to the borrowings made toward the end of the year, while Derivative liabilities went down by P37.7 million from P63.1 million last year as a result of the movements in the fair value of derivative products. Manager's Check increased by 128% from P35.2 million to P80.3 million this year. On the contrary, Outstanding Acceptances decreased by P70 million due to the lower volume of foreign currency acceptances.

Accrued Income Tax Payable increased by P6.4 million this year, together with Other Liabilities which also went up by 65% mainly due to higher accounts payable remittance.

## **Income Statement (variance analysis for December 31, 2018 vs. December 31, 2017)**

The significant increase in average volume across different financial assets resulted to higher interest income this year.

Interest income on loans and receivables went up by 22% from P1.87 billion to P2.29 billion this year. Also, Interest income on trading and investment securities increased by P67.6 million to P160.6 million this period. Likewise, interest income on interbank loans went up by 118.76% from P41.1 million to P89.8 million due to the increase in average volume of both peso and foreign currency interbank loans receivable. Conversely, interest income from deposits with other banks decreased by 7.14% this year.

Interest expenses on deposit liabilities rose by 141% owing to the higher average volume of both peso and foreign currency deposits. Similarly, interest expense on bills payable went up by P73.8 million from P23.4 million due to higher average volume of foreign currency borrowings during the period.

Service charges, handling fees and commission income increased by 5% mainly due to higher Bank Commission this year. Trading gains went up to P14.1 million from P11.4 million, while Foreign Exchange – gain dropped by P62.2 million, 41.7% lower than last year. Also, Miscellaneous Income decreased from P138.9 million to P128.0 million this year.

Provision for impairment and credit losses totaled Php214.4 million as of December 31, 2018, or a 7% increase from the Php200.4 million provision last year.

Various operating expense lines registered relative increases as compared to the same period last year. Taxes and licenses rose by P27.2 million to P203.5 million last year. Similarly, Miscellaneous Expense increased by 15.8% to P247.5 million mainly due to higher Business Insurance Fees and Management and other Professional fees. On the other hand, Security, Messengerial and Janitorial expenses decreased by 6.2% from P161.3 million to P151.2 million.

Provision for income taxes went up by P69.3 million from Php110.8 million to P180.2 million.

### **Material Events and Uncertainties:**

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

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

### **3. Plan of Operations**

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

## **ANNEX “E”**

# **STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS**





## 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, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

R.G. Manabat & Co., the independent auditor, appointed by the stockholders for the period December 31, 2018 and 2017, 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

Signed this 7th day of March 2019.

**SUBSCRIBED AND SWORN** to before me this MAR 07 2019 day of \_\_\_\_\_ 2019  
affiants exhibiting to me their Government Issued I.D., as follows:

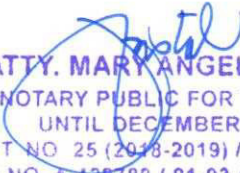
<u>NAMES</u>	<u>GOVERNMENT ISSUED I.D. / TIN</u>	<u>DATE/PLACE OF ISSUE</u>
JACK LEE	Passport# 301759716 TIN 433-750-023	June 29, 2010 / Taiwan
WEI, ERH-CHANG a.k.a. PETER WEI	Passport# 305439943 TIN 498-488-868	April 6, 2012 / Taiwan
ANDREW A. FALCON	SSS ID 33-8761568-1 TIN 229-140-289	

Doc. No. 14 ;

Page No. 4 ;

Book No. VI ;

Series of 2019.

  
**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-428789 / 01-03-19 / TAGUIG CITY  
IBP NO. 058332 / 01-03-19 / CAVITE  
MCLE COMPLIANCE NO. VI-0003715 / 10-25-17  
22F FORT LEGEND TOWER, 31<sup>ST</sup> STREET CORNER 3<sup>RD</sup>  
AVENUE BONIFACIO GLOBAL CITY, TAGUIG CITY

**ANNEX “F”**

**AUDITED FINANCIAL STATEMENTS OF  
THE BANK  
AS OF 31 DECEMBER 2018**

**CTBC BANK (PHILIPPINES) CORPORATION**

**FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**CTBC BANK (PHILIPPINES) CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2018	2017
<b>ASSETS</b>			
Cash and Other Cash Items	17, 29	<b>P504,999,873</b>	P452,374,266
Due from Bangko Sentral ng Pilipinas (BSP)	17, 29	<b>5,001,859,955</b>	3,492,925,784
Due from Other Banks	17, 29	<b>1,266,759,792</b>	879,092,880
Interbank Loans Receivable - net	17, 29	<b>6,142,778,572</b>	4,618,098,194
Financial Assets at Fair Value through Profit or Loss (FVTPL)	7, 17, 29	<b>127,362,442</b>	416,129,671
Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)	7, 17, 29	<b>2,413,219,048</b>	-
Available-for-Sale (AFS) Investments	7, 17, 29	-	1,070,821,205
Investment Securities at Amortized Cost	7, 17, 29	<b>2,790,519,408</b>	-
Held-to-Maturity (HTM) Investments	7, 17, 29	-	1,110,295,691
Loans and Receivables - net	8, 12, 29	<b>35,197,027,258</b>	27,502,293,563
Property and Equipment - net	9, 17	<b>113,972,195</b>	154,975,021
Investment Properties - net	10, 17	<b>172,218,735</b>	109,776,238
Deferred Tax Assets - net	17, 21	<b>200,953,992</b>	136,618,524
Other Assets	11, 17	<b>443,226,113</b>	382,871,414
		<b>P54,374,897,383</b>	P40,326,272,451
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposit Liabilities	13, 17, 29		
Demand		<b>P7,646,599,849</b>	P7,312,403,130
Savings		<b>7,597,339,059</b>	5,806,852,492
Time		<b>21,117,452,342</b>	13,582,645,361
		<b>36,361,391,250</b>	26,701,900,983
Financial Liabilities at FVTPL	17, 27, 29	<b>25,452,851</b>	63,147,488
Bills Payable	14, 17, 29	<b>7,910,300,863</b>	4,284,822,838
Outstanding Acceptances	17, 29	<b>194,467,418</b>	264,437,832
Manager's Checks	17	<b>80,275,446</b>	35,241,990
Accrued Interest, Taxes and Other Expenses	15, 17	<b>446,136,646</b>	427,761,749
Income Tax Payable	17	<b>24,999,134</b>	18,596,133
Other Liabilities	16, 17	<b>1,967,888,714</b>	1,190,174,107
		<b>47,010,912,322</b>	32,986,083,120

Forward

		<b>December 31</b>	
	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>EQUITY</b>			
Capital Stock	18	<b>P2,479,687,310</b>	P2,479,687,310
Treasury Stock	18	<b>(15,951,674)</b>	(15,951,674)
Additional Paid-in Capital		<b>53,513,675</b>	53,513,675
Restricted Retained Earnings		<b>4,941,428,129</b>	4,880,412,185
Statutory Reserve	18, 23	<b>4,981,159</b>	4,981,159
Cumulative Translation Adjustments		<b>8,793,915</b>	8,460,828
Net Unrealized Loss on Financial Assets at FVOCI	7	<b>(94,093,041)</b>	-
Net Unrealized Loss on AFS Investments	7	-	(15,506,159)
Net Remeasurement Loss on Retirement Liability	19	<b>(14,374,412)</b>	(55,407,993)
		<b>7,363,985,061</b>	7,340,189,331
		<b>P54,374,897,383</b>	P40,326,272,451

*See Notes to the Financial Statements.*

**CTBC BANK (PHILIPPINES) CORPORATION**  
**STATEMENTS OF INCOME**

		Years Ended December 31	
	Note	2018	2017
<b>INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD</b>			
Loans and receivables	8	P2,293,930,336	P1,873,229,847
Investment securities	7	146,042,636	63,247,030
Interbank loans receivable		89,811,973	41,055,225
Deposits with BSP and other banks		34,124,747	36,747,816
<b>INTEREST INCOME ON FINANCIAL ASSETS AT FVTPL</b>			
	7	14,598,029	29,834,951
		<b>2,578,507,721</b>	2,044,114,869
<b>INTEREST EXPENSE</b>			
Deposit liabilities	13	518,078,498	214,880,466
Bills payable	14	97,179,935	23,418,807
		<b>615,258,433</b>	238,299,273
<b>NET INTEREST INCOME</b>			
		<b>1,963,249,288</b>	1,805,815,596
Service fees and commission income	22	259,256,243	245,886,894
Foreign exchange gain - net		86,886,064	149,084,463
Trading and securities gain - net	7	14,064,637	11,418,383
Miscellaneous - net	22	128,028,359	138,931,306
<b>TOTAL OPERATING INCOME</b>			
		<b>2,451,484,591</b>	2,351,136,642
Compensation and fringe benefits	19	901,250,849	891,036,648
Occupancy and other equipment-related costs	20	224,871,529	217,287,958
Impairment losses	12	214,391,945	200,414,216
Taxes and licenses	21	203,512,137	176,342,703
Security, messengerial and janitorial expenses		151,228,017	161,284,282
Depreciation and amortization	9, 10	57,766,657	58,823,070
Amortization of computer software costs	11	33,411,885	33,384,896
Miscellaneous	22	247,539,281	213,792,075
<b>TOTAL OPERATING EXPENSES</b>			
		<b>2,033,972,300</b>	1,952,365,848
<b>INCOME BEFORE INCOME TAXES</b>			
		<b>417,512,291</b>	398,770,794
<b>INCOME TAXES</b>			
	21	180,157,052	110,816,674
<b>NET INCOME</b>			
		<b>P237,355,239</b>	P287,954,120
<b>BASIC/DILUTED EARNINGS PER SHARE</b>			
	28	<b>P0.96</b>	P1.16

See Notes to the Financial Statements.

**CTBC BANK (PHILIPPINES) CORPORATION**  
**STATEMENTS OF OTHER COMPREHENSIVE INCOME**

		<b>Years Ended December 31</b>	
	<i>Note</i>	<b>2018</b>	<b>2017</b>
<b>NET INCOME FOR THE YEAR</b>		<b>P237,355,239</b>	P287,954,120
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>			
<i>Items that may not be reclassified to profit or loss</i>			
Net remeasurement gain (loss) on retirement liability - net of tax	19	<b>41,033,581</b>	(68,916,987)
<i>Items that may be reclassified to profit or loss</i>			
Net unrealized loss on financial assets at FVOCI	7	<b>(107,300,438)</b>	-
Net unrealized gain on AFS investments	7	-	13,420,325
Cumulative translation adjustments		<b>333,087</b>	(21,421,477)
		<b>(106,967,351)</b>	(8,001,152)
		<b>(65,933,770)</b>	(76,918,139)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>P171,421,469</b>	P211,035,981

*See Notes to the Financial Statements.*



**CTBC BANK (PHILIPPINES) CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**

	<b>Note</b>	<b>Capital Stock</b> (see Note 18)	<b>Treasury Stock</b> (see Note 18)	<b>Additional Paid-in Capital</b> (see Note 18)	<b>Restricted Retained Earnings</b> (see Note 18)	<b>Statutory Reserve</b> (see Notes 18 and 23)	<b>Cumulative Translation Adjustments</b>	<b>Net Unrealized Loss on Financial Assets at FVOCI</b> (see Note 7)	<b>Net Unrealized Loss on AFS Investments</b> (see Note 7)	<b>Net Remeasurement Loss on Retirement Liability</b> (see Note 19)	<b>Total</b>
<b>Balance at January 1, 2018</b>		P2,479,687,310	(P15,951,674)	P53,513,675	P4,880,412,185	P4,981,159	P8,460,828	P -	(P15,506,159)	(P55,407,993)	P7,340,189,331
Adjustment on initial application of PFRS 9, net of tax	7, 29	-	-	-	(176,339,295)	-	-	13,207,397	15,506,159	-	(147,625,739)
<b>Restated balance at January 1, 2018</b>		2,479,687,310	(15,951,674)	53,513,675	4,704,072,890	4,981,159	8,460,828	13,207,397	-	(55,407,993)	7,192,563,592
Net income for the year		-	-	-	237,355,239	-	-	-	-	-	237,355,239
<b>Other Comprehensive Income for the Year</b>											
Items that may not be reclassified to profit or loss:											
Net remeasurement gain on retirement asset		-	-	-	-	-	-	-	-	41,033,581	41,033,580
Items that may be reclassified to profit or loss:											
Net unrealized loss on financial assets at FVOCI		-	-	-	-	-	(107,300,438)	-	-	-	(107,300,438)
Cumulative translation adjustments		-	-	-	-	333,087	-	-	-	-	333,088
<b>Balance at December 31, 2018</b>		P2,479,687,310	(P15,951,674)	P53,513,675	P4,941,428,129	P4,981,159	P8,793,915	(P94,093,041)	P -	(P14,374,412)	P7,363,985,061
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	P -	(P28,926,484)	P13,508,994	P7,129,153,350
Net income for the year		-	-	-	287,954,120	-	-	-	-	-	287,954,120
<b>Other Comprehensive Income for the Year</b>											
Items that may not be reclassified to profit or loss:											
Net remeasurement loss on retirement liability		-	-	-	-	-	-	-	-	(68,916,987)	(68,916,987)
Items that may be reclassified to profit or loss:											
Net unrealized gain on AFS investments		-	-	-	-	-	-	13,420,325	-	-	13,420,325
Cumulative translation adjustments		-	-	-	-	-	(21,421,477)	-	-	-	(21,421,477)
<b>Balance at December 31, 2017</b>		P2,479,687,310	(P15,951,674)	P53,513,675	P4,880,412,185	P4,981,159	P8,460,828	P -	(P15,506,159)	P(55,407,993)	P7,340,189,331

See Notes to the Financial Statements.

**CTBC BANK (PHILIPPINES) CORPORATION**  
**STATEMENTS OF CASH FLOWS**

		<b>Years Ended December 31</b>	
	<i>Note</i>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income taxes		<b>P417,512,291</b>	P398,770,794
Adjustments for:			
Impairment losses	12	<b>214,391,945</b>	200,414,216
Foreign exchange revaluation loss on bills payable		<b>145,414,396</b>	-
Depreciation and amortization	9, 10	<b>57,766,657</b>	58,823,070
Amortization of net discount on financial assets on FVOCI and investment securities at amortized cost		<b>47,727,059</b>	-
Amortization of computer software costs	11	<b>33,411,885</b>	33,384,896
Retirement benefit expense	19	<b>14,881,981</b>	20,857,694
Impairment losses on investment property	10	<b>370,359</b>	1,716,291
Loss (gain) on disposal of property and equipment		<b>27,988</b>	(16,578)
Amortization of deferred charges		<b>1,402</b>	77,263
Loss on disposal of computer software		<b>85</b>	666,313
Amortization of net discount on AFS and HTM investments		-	26,242,701
Realized gain on sale of AFS and HTM		-	(21,722,474)
Gain on disposal of investment property		<b>(1,909,561)</b>	(6,963,144)
Mark-to-market (gain) loss on trading securities	7	<b>(2,728,319)</b>	2,307,282
Dividend income	22	<b>(2,801,240)</b>	(4,066,000)
Contribution to the plan assets	19	<b>(27,283,631)</b>	(20,857,694)
Realized gain on sale of FVOCI and amortized cost		<b>(32,197,473)</b>	-
Foreign exchange revaluation gain on trading and investment securities		<b>(351,752,434)</b>	(41,147,491)
Changes in operating assets and liabilities:			
Decrease (increase) in amounts of:			
Loans and receivables		<b>(8,148,260,766)</b>	(5,207,302,938)
Financial assets at FVTPL		<b>291,495,548</b>	148,656,132
Other assets		<b>130,550,496</b>	(69,587,145)
Increase (decrease) in amounts of:			
Deposit liabilities	17	<b>9,659,490,267</b>	(265,185,237)
Manager's checks	17	<b>45,033,456</b>	(16,934,974)
Accrued interest, taxes and other expenses	15, 17	<b>18,374,897</b>	68,057,989
Financial liabilities at FVTPL	17, 27	<b>(37,694,637)</b>	30,554,721
Outstanding acceptances	17	<b>(69,970,414)</b>	253,853,721
Other liabilities		<b>808,205,083</b>	(354,515,841)
Net cash generated from (used in) operations		<b>3,210,057,320</b>	(4,763,916,433)
Income taxes paid		<b>(167,017,366)</b>	(122,655,134)
Net cash provided by (used in) operating activities		<b>3,043,039,954</b>	(4,886,571,567)

*Forward*

**Years Ended December 31**

	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Financial assets at FVOCI		<b>(P21,662,960,000)</b>	P -
Investment securities at amortized cost		<b>(2,265,508,458)</b>	-
AFS investments		-	(948,810,000)
HTM investments		-	(606,399,711)
Property and equipment	9	<b>(20,044,416)</b>	(75,558,522)
Investment property		<b>(71,245,611)</b>	(43,074,950)
Computer software costs	11	<b>(209,278,025)</b>	(14,754,659)
Proceeds from disposals of:			
Financial assets at FVOCI		<b>436,481,658</b>	-
AFS investments		-	812,378,841
Property and equipment		<b>7,238,802</b>	8,705,548
Investment property		<b>6,356,112</b>	29,563,655
Proceeds from maturity of:			
Financial assets at FVOCI and investment securities at amortized cost		<b>20,457,848,161</b>	-
AFS and HTM investments		-	69,576,911
Dividends received	22	<b>2,801,240</b>	4,066,000
Net cash used in investing activities		<b>(3,318,310,537)</b>	(764,306,887)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of bills payable		<b>37,623,856,919</b>	28,848,285,527
Settlement of bills payable		<b>(34,143,793,290)</b>	(24,563,462,689)
Net cash provided by financing activities		<b>3,480,063,629</b>	4,284,822,838
<b>EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS</b>			
		<b>269,114,022</b>	14,896,014
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		<b>3,473,907,068</b>	(1,351,159,602)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
Cash and other cash items		<b>452,374,266</b>	428,066,149
Due from BSP		<b>3,492,925,784</b>	6,078,965,189
Due from other banks		<b>879,092,880</b>	2,129,327,639
Interbank loans receivable - net		<b>4,618,098,194</b>	2,157,291,749
		<b>9,442,491,124</b>	10,793,650,726
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
Cash and other cash items		<b>504,999,873</b>	452,374,266
Due from BSP		<b>5,001,859,955</b>	3,492,925,784
Due from other banks		<b>1,266,759,792</b>	879,092,880
Interbank loans receivable - net		<b>6,142,778,572</b>	4,618,098,194
		<b>P12,916,398,192</b>	P9,442,491,124
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>			
Interest received		<b>P2,417,867,057</b>	P1,951,032,889
Interest paid		<b>(495,612,504)</b>	(193,594,032)
		<b>P1,922,254,553</b>	P1,757,438,857

See Notes to the Financial Statements.

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## CTBC BANK (PHILIPPINES) CORPORATION

### NOTES TO THE FINANCIAL STATEMENTS

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#### 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. The term of existence of the Bank is fifty (50) years from the date of incorporation.

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 31<sup>st</sup> 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.

The Bank's Foreign Currency Deposit Unit (FCDU) license was approved through Monetary Board (MB) Resolution No. 246 dated March 26, 1993. The Bank has authority to engage in trust operations as approved by Monetary Board in its Resolution No. 765 dated July 31, 1996.

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## **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 (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC) consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations.

This is the first set of the Bank's financial statements in which PFRS 9 *Financial Instruments* and PFRS 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in Note 3.

### Basis of Measurement

These financial statements have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI) which are measured at fair value, and net retirement asset which is measured at fair value of plan assets less present value of the defined benefit obligation.

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and the FCDO. 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 FCDO is the Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDO accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP (see Note 3 on foreign currency translation).

The financial statements of the Bank are presented in PHP. All financial information presented in PHP has been rounded off to the nearest peso, except as otherwise indicated.

### Presentation of Financial Statements

The Bank presents its statements of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 17.

### Approval of Issuance of Financial Statements

These financial statements of the Bank were authorized for issue by the BOD of the Bank on March 7, 2019.

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### 3. Summary of Significant Accounting Policies

Except for the changes explained in the foregoing, the accounting policies set out below have been applied consistently to all years presented in these financial statements.

#### Adoption of New Standards, Amendments to Standards and Interpretation

The Bank has adopted the following new standards, amendments to standards and interpretation starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Bank's financial statements.

- *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 that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. 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 Bank elected to apply the modified retrospective approach in the adoption of PFRS 9. Due to the transition method chosen by the Bank, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

As a result of the adoption of PFRS 9, the Bank has adopted consequential amendments to PAS 1 *Presentation of Financial Statements*, which require separate presentation in the statements of income and other comprehensive income (OCI) of interest income calculated using the effective interest method.

Additionally, the Bank has adopted consequential amendments to PFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information.

#### Transition

Changes in accounting policies resulting from the adoption of PFRS 9 have been applied retrospectively, except as described below:

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of PFRS 9 are recognized in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9 and therefore is not comparable to the information presented for 2018 under PFRS 9.

The Bank used the exemption not to restate comparative periods but considering that the amendments made by PFRS 9 to PAS 1 introduced the requirement to present interest income calculated using the effective interest method as a separate line item in the statements of income, the Bank has reclassified comparative interest income on financial assets at FVTPL and changed the description of the line item from "Interest income" reported in 2017 to "Interest income calculated using the effective interest method".

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held;
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;
  - The designation of certain investments in equity instruments not held for trading as at FVOCI;
  - No financial liabilities designated as at FVTPL; and
  - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The information and details on the changes and implications resulting from the adoption of PFRS 9 are disclosed in Note 29.

- *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 and more comprehensive 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.

PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the Bank'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 adoption of PFRS 15 did not have a significant impact on the timing or amount of fee and commission income from contracts with customers of the Bank. The impact of PFRS 15 was limited to the new disclosure requirements (see accounting policy on Service Fees and Commission Income).

- *Transfers of Investment Property (Amendments to PAS 40 Investment Property)* 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.
- *Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration.* The interpretation 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.

#### 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 Bankers Association of the Philippines (BAP) closing rate prevailing as at the reporting date and foreign currency-denominated income and expenses are translated at the BAP closing rate prevailing as at the date of transaction. 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 monetary assets and liabilities of the FCDU of the Bank are translated from its functional currency into its equivalent in PHP, the presentation currency, at the BAP closing rate prevailing at the reporting date. 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. The income and expenses are translated using the BAP weighted average rate for the year. Foreign exchange differences arising from translation of the FCDU balances to the presentation currency are taken directly to "Cumulative translation adjustments" in the statements of OCI. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statements of OCI is recognized in the statements of income.

### *Foreign Exchange Gain - net*

Foreign exchange gain - net consists of gains and losses due to the differences in exchange rate from translating transaction currency to functional currency in the statements of income.

## Financial Instruments

### *Recognition and Initial Measurement*

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.

A financial asset or financial liability is measured initially at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

### *Classification and Measurement*

#### *Policy Applicable from January 1, 2018*

#### Financial Assets

The Bank classifies its financial assets in the following categories: financial assets at amortized cost, financial assets at FVOCI or financial assets at FVTPL.

#### Debt Instruments

##### *Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest (SPPI).

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. These financial assets are subsequently measured at amortized cost using the effective interest method less any loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is recognized under "Interest income calculated using the effective interest method" in the statements of income. The losses arising from impairment of financial assets at amortized cost are recognized in "Impairment losses" in the statements of income.

When such financial assets are sold or disposed of, the cumulative gain or loss previously recognized in OCI is recognized as "Trading and securities gain - net" in the statements of income.

The Bank's financial assets at amortized cost include due from BSP, due from other banks, interbank loans receivable - net, investment securities at amortized cost, loans and receivables - net, and returned checks and other cash items and rental deposits included under "Other assets" in the statements of financial position.

#### Financial Assets at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are SPPI.

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. These instruments are subsequently measured at fair value with gains and losses due to changes in fair value recognized under "Net unrealized loss on financial assets at FVOCI" in the statements of OCI. Interest earned on these instruments is recognized under "Interest income calculated using the effective interest method" in the statements of income.

#### Financial Assets at FVTPL

All other financial assets not measured at amortized cost or at FVOCI are classified as measured at FVTPL.

This category includes held-for-trading (HFT) investments and derivative assets.

##### a. *HFT Investments*

HFT investments 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 is recorded under "Interest income on financial assets at FVTPL" in the statements of income.

b. *Derivative Assets*

The Bank is counterparty to derivative contracts, such as forwards 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.

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 2018, the Bank did not apply hedge accounting treatment for any of its derivative transactions since the derivatives are held-for-trading and not designated as hedging instruments.

The Bank's derivative transactions include cross-currency swap and forward contracts.

The Bank may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at FVTPL, subject to the following requirements:

- The Bank has in place appropriate risk management systems including related risk management policies, procedures, and controls; and
- The Bank applies the fair value option only to instruments for which fair values can be reliably estimated.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

*Equity Instruments*

Financial assets that are equity instruments shall be classified under any of the following categories:

- a. Financial assets measured at FVTPL which shall include financial assets HFT; or
- b. Financial assets at FVOCI which shall consist of:
  - i. Equity instruments that are irrevocably designated at FVOCI at initial recognition that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3 *Business Combinations* applies; or

- ii. Financial assets mandatorily measured at fair value. This include investment in equity instruments, previously accounted at cost under PAS 39, which do not have quoted price in an active market for an identical instrument.

Dividends earned from equity instruments are recognized in “Miscellaneous -net” in the statements of income when the Bank’s right to receive payment has been established.

As at the date of initial application, the Bank irrevocably designated at FVOCI equity instruments amounting to P12.9 million (see Note 29).

*Business Model in Managing Financial Assets*

The Bank makes an assessment of the objective of a business model in which an assets is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio operation and the operation of those policies in practice. In particular, whether management’s strategy focuses in earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reason for such sales and its expectation about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objective for managing the financial assets is achieved and how cash flows are realized.

Sale of financial assets under the business model of held-to-collect is permitted under these circumstances:

- credit risk management;
- sales for other reasons must be either immaterial or infrequent.

Recurring sales under the business model of held-to-collect-and-sell are permitted as long as any of the following conditions are met:

- sale of securities sold have been held for at least 60 days to realize capital gain or loss. There is no limitation on the number or the contract size of sale;

- approval of the Treasury Group Head has been obtained for the sale of securities that have been held for less than 60 days, unless the sale is due to any of the following, in which case, the holding period requirement is not necessary:
  - credit deterioration of the issuer;
  - liquidity stress;
  - undue market risk; or
  - excess assets no longer required for regulatory purposes;
- other reasons for the approval of sale of securities that have been held for less than 60 days such as adjust or re-balance the Bank's net risk and value realization per security should be approved by the Treasury Group Head and do not exceed five times in a calendar year.

*Assessment of Whether Contractual Cash Flows are Solely Payments of Principal and Interest*

For the purposes of assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

**Financial Liabilities**

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or at FVTPL.

Financial liabilities are classified and subsequently measured at amortized cost using the effective interest method, except for financial liabilities measured at FVTPL. Financial liabilities measured at FVTPL consists of: (a) financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments; and (b) financial liabilities designated at fair value through profit or loss.

The Bank may, at initial recognition, irrevocably designate financial liabilities as measured at FVTPL.

The Bank's financial liabilities at amortized cost include deposit liabilities, bills payable, outstanding acceptances, manager's checks, accrued interest and other expenses (except accrued taxes and other non-financial accruals) and other liabilities (except withholding taxes payable).

Financial liabilities at FVTPL include derivative liabilities held-for-trading arising from cross-currency swap and forward contracts. Similar to derivative assets, any gains or losses arising from changes in fair values of derivative liabilities are taken directly to “Foreign exchange gain - net” in the statements of income. Derivatives are carried as liabilities when the fair value is negative.

*Reclassification of Financial Assets and Financial Liabilities*

Financial assets are reclassified when, and only when, the Bank changes its business model for managing financial assets in accordance with the provisions of PFRS 9. Reclassifications other than due to change in business model are not permitted.

A change in the Bank’s business model is expected to be very infrequent and must be determined as a result of external and internal changes that are significant to the Bank’s operations and demonstrable to external parties. Hence, such change in business model must be approved by the Bank’s management and such fact properly documented.

A change in the objective of the Bank’s business model must be effected before the reclassification date.

The Bank does not effect a reclassification within the period of change in the business model. Any reclassification of financial assets due to change in business model should take effect from the beginning of the next reporting period of the Bank’s financial statements; provided, that the change in business model be disclosed in the financial statements in the period of change consistent with PFRS 7 which require among others the disclosure of objectives, policies and processes for managing the risk from financial instruments and any changes to those objectives, policies and procedures.

Financial liabilities are not reclassified.

*Policy Applicable before January 1, 2018*

The Bank classified its financial assets into one of the following categories: financial assets at FVTPL, HTM investments, loans and receivables and AFS investments. Financial liabilities were classified into financial liabilities at FVTPL and other financial liabilities.

The classification was based on the purpose for which the financial assets were acquired or the liabilities were incurred and whether they were quoted in an active market, and for HTM investments, the ability and intention to hold the investment until maturity. Management determined the category of its financial instruments at initial recognition and where allowed and appropriate, re-evaluated such designation at every reporting date.

*Financial Assets and Financial Liabilities at FVTPL*

This category included financial assets and liabilities held-for-trading and derivative financial instruments recorded at FVTPL.

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

Financial assets and financial liabilities held-for-trading were recorded in the statements of financial position at fair value. Changes in fair value relating to the held-for-trading positions were recognized in “Trading and securities gain - net” in the statements of income. Interest earned was recorded in “Interest income on financial assets at FVTPL” in the statements of income. Dividend income was recorded in “Miscellaneous - net” in the statements of income when the Bank’s right to receive payment was established.

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

*b. Derivative Financial Instruments Classified at FVTPL*

Derivative financial instruments were initially recorded at fair value on the date at which the derivative contract was entered into and were 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) were taken directly to "Foreign exchange gain (loss) - net" in the statements of income. Derivatives were carried as assets when the fair value was positive and liabilities when the fair value was negative.

The method of recognizing fair value gains and losses depend on whether derivatives were held-for-trading or were designated as hedging instruments, and if the latter, the nature of the risks being hedged. When derivatives were designated as hedges, the Bank classified 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 was applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria were met.

In 2017, the Bank did not apply hedge accounting treatment for any of its derivative transactions since the derivatives were held-for-trading and not designated as hedging instruments.

The Bank's derivative transactions included cross-currency swap and forward contracts.

*HTM Investments*

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

The effects of translation of foreign currency-denominated HTM investments were recognized in the statements of income.

Where the Bank sold other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments and the Bank would 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 included cash and cash equivalents, loans and receivables, and returned checks and other cash items under "Other assets" in the statements of financial position. These were non-derivative financial assets with fixed or determinable payments and fixed maturities that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as financial assets at FVTPL or designated as AFS investments.

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

### AFS Investments

AFS investments were those which were designated as such or did not qualify to be classified as financial assets at FVTPL, HTM investments or loans and receivables. They were purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These included government debt securities, equity investments, and other debt instruments.

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

Investments in equity instruments that did not have a quoted market price in an active market and whose fair value could not be reliably measured were measured at cost.

When the securities were sold or disposed of, the cumulative gain or loss previously recognized in OCI was recognized as "Trading and securities gain - net" in the statements of income. Where the Bank held more than one investment in the same security, these were deemed to be disposed of on a first-in first-out basis. Interest earned on AFS debt instruments was calculated using the EIR and reported as "Interest income calculated using the effective interest method" in the statements of income. Dividends earned from AFS equity investments were recognized in "Miscellaneous - net" in the statements of income when the right to receive payment was established. The losses arising from impairment of AFS investments were recognized as "Impairment losses" in the statements of income.

### Financial Liabilities

The Bank's financial liabilities included 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 were not designated at FVTPL, were 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 contained both liability and equity elements were 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 FVTPL were subsequently measured at amortized cost using the EIR method. Amortized cost was calculated by taking into account any discount or premium on the issue and fees that were an integral part of the EIR.

#### *Reclassification of Financial Assets and Financial Liabilities*

A financial asset at FVTPL was reclassified out of the FVTPL category when the following conditions were met:

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

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

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

Financial liabilities were not reclassified.

#### *Impairment of Financial Assets*

##### *Policy Applicable from January 1, 2018*

At each reporting date, the Bank uses the Expected Credit Loss (ECL) model in the assessment of the losses from financial assets such as due from BSP, due from other banks, interbank loans receivable, financial assets at FVOCI - debt securities, investment securities at amortized cost, loans and receivables (excluding sales contract receivables and accounts receivables) and off-balance sheet credit commitments and financial guarantees not measured at FVTPL.

ECL is a forward looking approach in measuring the difference between the cash flows that are due to the Bank in accordance with the contractual terms of a financial instrument and the cash flows that the Bank expects to receive. The Bank considers the past events, the current situation and the forecast of future economic conditions to identify whether the credit risk of financial instruments have been significantly increased since the initial recognition. The ECL model considers losses from initial recognition and at each reporting date. Three stages of impairment are used for the entire financial asset that serves as an objective basis in determining significant increase in credit risk.

The definitions of the stages are as follows:

- Stage 1 - recognition of 12-month ECL when asset is originated or purchased, except for a purchased or originated credit-impaired financial asset;
- Stage 2 - recognition of collective and individual lifetime ECL when credit quality of financial asset deteriorates significantly; and
- Stage 3 - individual lifetime ECL when credit losses are incurred or asset is credit impaired.

Stage 3 classified assets are assessed using the specific impairment methodology for Corporate loans.

The Bank uses three variables in computing the ECL:

- Probability of Default (PD) or the likelihood of a customer defaulting;
- Loss Given Default (LGD) which means how much exposure is expected to be lost if customer defaults; and
- Exposure at Default (EAD) or the outstanding amount of obligation at time of default which covers both the principal and the accrued interest.

Detailed discussions on the recognition and measurement of ECL in relation to credit risk management practices are disclosed in Note 5.

*Policy Applicable before January 1, 2018*

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

*AFS Investments*

For AFS investments, the Bank assessed at each reporting date whether there was an objective evidence that a financial asset or group of financial assets was 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 was significant and prolonged was subject to judgment. When there was an evidence of impairment, the cumulative loss, which was 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, was removed from equity and recognized in the statements of income. Impairment losses on equity investments were not reversed through the statements of income. Increases in fair value after impairment were recognized directly in the statements of OCI.

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

#### *Financial Assets Carried at Amortized Cost*

For financial assets carried at amortized cost, the Bank first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant. For individually assessed financial assets, the amount of the loss was 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 was discounted at the financial asset's original EIR.

If a financial asset had a variable interest rate, the discount rate for measuring any impairment loss was 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 reflected the cash flows that may result from foreclosure less costs for obtaining and selling the collaterals, whether or not foreclosure was probable.

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

If the Bank determined that no objective evidence of impairment existed for an individually assessed financial asset, whether significant or not, the assets were grouped on the basis of similar credit risk characteristics and were collectively assessed for impairment. Those characteristics were 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 were 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 were collectively evaluated for impairment were estimated based on historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was 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 was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with the 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 were reviewed regularly by the Bank to reduce any difference between loss estimates and actual loss experience.

#### Financial Assets Carried at Cost

If there was objective evidence that an impairment loss on an unquoted equity instrument that was not carried at fair value because its fair value could not be reliably measured, or on a derivative asset that was linked to and must be settled by delivery of such an unquoted equity instrument had been incurred, the amount of loss was 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. The loss is recorded under "Impairment losses" in the statements of income.

#### *Modification of Financial Assets and Financial Liabilities*

##### *Policy Applicable from January 1, 2018*

#### Financial Assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original IER of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

#### Financial Liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

#### *Policy Applicable before January 1, 2018*

#### Financial Assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognized and a new financial asset was recognized at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognized, then impairment of the asset was measured using the pre-modification interest rate.

### Financial Liabilities

The Bank derecognized a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognized at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognized in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

### *Derecognition of Financial Instruments*

#### Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of the ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risk and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of: (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that had been recognized in profit or loss.

Any cumulative gain or loss recognized in OCI in respect of equity investment securities designated as at FVOCI (2017: AFS equity investments) is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized on its statements of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

#### Financial Liabilities

Financial liabilities are removed from the statements of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

#### 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.

#### 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.

#### Debt Issue Cost

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

#### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP, due from other banks and interbank loans receivable - net 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 - net" in the statements of financial position 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 sell.

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 are 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 recognized in "Impairment losses" in the statements of income. When a financial guarantee liability is discharged, cancelled, or expires, the balance is recognized in "Service fees and commission income" in the statements of income.

As at December 31, 2018 and 2017, the Bank has no on-balance sheet financial guarantees.

#### Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statements of income as they are consumed in operations or expire with the passage of time.

#### Revenue Recognition

##### *Interest Income*

##### *Policy Applicable from January 1, 2018*

##### Effective Interest Rate

Interest income and expense are recognized in profit or loss using the effective interest rate method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all the contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted EIR is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the EIR, transactions costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

##### Amortized Cost and Gross Carrying Account

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

##### Calculation of Interest Income

The effective interest rate of a financial asset is calculated on initial recognition. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

#### Presentation

Interest income presented under “Interest income calculated using the effective interest method” in the statements of income includes interest earned on financial assets at amortized cost and at FVOCI.

Interest income on financial assets at FVTPL is presented under “Interest income on financial assets at FVTPL” in the statements of income.

#### *Policy Applicable before January 1, 2018*

#### Effective Interest Rate

Interest income was recognized in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

The transaction costs of acquisition of loans and receivables or additional service fee on generation or acquisition of the loans and receivables were served to adjust the book value of loans and receivables and thereby revise the effective interest rate. Interest revenue generated from discounts and loans were recognized based on accrual basis. When the loans became past due and were considered uncollectible, the principal and interest receivable were transferred to nonperforming loan accounts, and the accrual of interest revenue was ceased. Interest revenue would be recognized when the interest of the nonperforming loan was collected.

#### *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.

In view of the disclosure requirements of PFRS 15, the Bank disaggregates its service fees and commission income arising from contracts with customers into major service lines and into reportable segments (see Note 22).

#### *Dividend Income*

Dividend income on 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 FVTPL and realized gains or losses on disposals of financial instruments measured at FVTPL and debt securities at FVOCI (2017: AFS debt securities).

#### *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 in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or
- immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

Expenses in the statements of income are presented using the nature of expense method.

#### 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 OCI. 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, deferred and final taxes. 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 OCI.

#### *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 Tax*

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 or 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.

### Final Tax

Final tax is a kind of withholding tax which is prescribed on certain income payments and is not creditable against the income tax due of the payee on other income subject to regular rates of tax for the taxable year. Tax withheld constitutes the full and final payment of the tax due from the payee on the particular income subjected to final withholding tax.

### 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 in the statements of financial position. 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.

### 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.

### Standards Issued But Not Yet Adopted

A number of new standards, amendments to standards and interpretation are effective for annual periods beginning after January 1, 2019. However, the Bank has not early adopted the following new or amended standards in preparing these financial statements. Based on management's assessment, unless otherwise stated, none of these are expected to have a significant effect on the Bank's financial statements.

#### *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 has performed an initial assessment of the potential impact of PFRS 16 on its financial statements. The Bank will recognize new assets and liabilities for its operating leases. The nature of the expense related to these leases will change because PFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use (ROU) assets and interest expense on lease liabilities.

Under PAS 17, the Bank recognizes operating lease expenses on a straight-line basis over the term of the lease and recognizes assets and liabilities only to the extent that there is a timing difference between actual lease payments and the expense recognized.

The Bank intends to elect the modified retrospective approach as its transition option in applying PFRS 16. The Bank plans to measure, on a lease-by-lease basis, the ROU asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statements of financial position immediately before the date of initial application. Based on initial assessment, the Bank will book ROU asset and lease liability amounting to P193.1 million.

- *Prepayment Features with Negative Compensation (Amendments to PFRS 9 Financial Instruments)*. The amendments cover the following areas:

- Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
- *Income Tax Consequences of Payments on Financial Instruments Classified as Equity (Amendments to PAS 12 Income Taxes)*. The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, OCI or equity.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

- *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.

*To be Adopted on January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:
  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)*. The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  - (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  - (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d) clarifying the explanatory paragraphs accompanying the definition; and
  - (e) aligning the wording of the definition of material across PFRS and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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#### **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

Judgments Applicable to 2018 only

##### *Business Model Assessment*

Debt securities held are classified based on the Bank's business models for managing the debt securities which are determined and assessed at the portfolio level that reflects how groups of debt securities are managed together to achieve the particular business objectives (e.g. to collect contractual cash flows or to trade to realize fair value changes) of the respective business model.

The Bank's business models for managing debt securities held determine the nature and source of the cash flows resulting from the investments. As such, the assessment of the business models for managing the debt securities is subject to judgment that is not determined by a single factor or activity. Instead, the Bank must consider all relevant evidence that is available at the date of the assessment.

*Assessment of Whether Contractual Cash Flows are Solely Payments of Principal and Interest*

The classification of a financial asset is based on whether, on specified dates, the contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding. This involves assessment of whether the contractual cash flows that are SPPI are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest.

As such, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set and the contractual terms that change the timing or amount of the cash flows.

*Significant Increase in Credit Risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit assessment, including forward-looking information.

The Bank's qualitative and quantitative factors modelling in the determination of whether credit risk of a particular exposure is deemed to have increased significantly since initial recognition is disclosed in Note 5.

Judgments Applicable to 2018 and 2017

*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.

*Determining Lease Agreements*

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

#### *Determining Functional Currency*

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

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

#### Estimates

Estimates Applicable in 2018 only

#### *Impairment Losses on Financial Instruments*

The Bank reviews its financial instruments monthly for the assessment of the sufficiency of the loss allowances recorded in the statements of financial position.

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 qualitative and quantitative factors where different results may result in future changes to the loss allowances.

In addition to specific allowance against individually significant loans and receivables, the Bank also provides 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 done by considering information that is indicative of significant increases in credit risk on a group or sub-group of financial instruments.

The loss allowance on financial instruments amounted to P760.0 million as at December 31, 2018 (see Note 12). This includes loss allowance on loans and receivables, interbank loans receivable, financial assets at FVOCI and off-balance sheet commitments and contingents.

As at December 31, 2018, the carrying value of loans and receivables and interbank loans receivable, net of loss allowance, amounted to P35.2 billion (see Notes 8 and 29) and P6.1 billion (see Note 29), respectively.

As at December 31, 2018, the loss allowance on off-balance sheet commitments and contingents, and on financial assets at FVOCI amounted to P5.5 million and P0.4 million, respectively (see Note 12).

#### *Determining Inputs into ECL Measurement Model*

In computing the ECL, the Bank uses three variables: (a) PD; (b) LGD; and (c) EAD. The determination of the amounts of the variables involves identifying and documenting key drivers of credit risk and credit losses for each portfolio of financial instruments and using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. Identified drivers for credit risk include GDP growth, inflation and unemployment rate.

Detailed discussions on the Bank's inputs to the ECL model are disclosed in Note 5.

#### Estimates Applicable in 2017 Only

##### *Impairment of AFS Unquoted Equity Investments*

The Bank treated AFS unquoted equity investments as impaired when there had been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment existed. The determination of what was 'significant' or 'prolonged' required judgment. The Bank treated '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 evaluated other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factor for unquoted equities.

As at December 31, 2017, the carrying value of AFS unquoted equity investments amounted to P12.4 million (see Note 7).

##### *Credit Losses on Loans and Receivables*

The Bank reviewed its impaired loans and receivables at least semi-annually to assess whether additional provision for credit losses should be recorded in the statements of income. In particular, judgment by management was required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates were 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 made a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, had a greater risk of default than when originally granted. This collective allowance was based on any deterioration in the internal credit rating of the loan since it was granted or acquired. These internal ratings took into consideration factors such as any deterioration in industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

As at December 31, 2017, loss allowance on loans and receivables amounted to P462.5 (see Notes 8 and 12). The carrying value of loans and receivables, net of loss allowance, amounted to P27.5 billion as at December 31, 2017 (see Note 8).

#### Estimates Applicable in 2018 and 2017

##### *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.

#### *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, 2018 and 2017 amounting to P236.7 million and P159.2 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 P177.8 million and P214.4 million as at December 31, 2018 and 2017, respectively (see Note 19).

The net retirement asset (liability) of the Bank amounted to P15.0 million and (P32.2 million) as at December 31, 2018 and 2017, respectively (see Notes 11, 15 and 19).

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## **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 assesses 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 approves a written plan defining the strategies for managing and controlling the major risks. It approves recommended practical strategies to mitigate the risks, avoid and minimize losses if the risk becomes real.
3. *Oversee Adherence to Risk Appetite.* The RMC ensures that current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It assesses the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.
4. *Establish an Appropriate Credit Risk Environment.* The RMC is 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 ensures 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 will be reported to it for appropriate action.

5. *Oversee the Implementation of the Risk Management Plan.* The RMC directs the dissemination of the risk management plan and loss control procedures to all affected parties. The RMC conducts 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.
6. *Review and Revise the Plan as Needed.* The RMC evaluates the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. It revisits strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The RMC reports 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.
7. *Review and Update the Risk Management Committee Charter Periodically or as Deemed Necessary*
8. *Review and Evaluate Chief Risk Officer (CRO)'s Performance Annually*
9. *Endorse for Confirmation of BOD the Performance Rating of the CRO*
10. *Perform Oversight Functions over the Information Technology (IT) Steering Committee (ITSC).* The RMC oversees the ITSC function and regularly provides 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 BOD in the development of risk appetite and risk appetite statement 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
    - loss allowance
    - key performance indicators for risk
    - capital adequacy
  - To consider and recommend to the BOD for approval, through the RMC, the Bank's risk tolerance and in particular:
    - to recommend to the BOD 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 BOD 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; and
  - unbiased assessment of the quality of individual credits and aggregate credit portfolio, including appropriateness of credit risk rating, classification and adequacy of loss allowance by way of independent credit review as part of the Credit Committee.
  
- To evaluate annually the Bank's internal risk control framework through the Internal Capital Adequacy Assessment Process (ICAAP) 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 (VAR) 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.

As the Enterprise-Wide Risk Management (EWRM) representative, the CRO facilitates the execution of EWRM processes and infrastructure as a key enabler to achieving the business objectives of the organization. The CRO manages and develops a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks that could interfere with the Bank's objectives and goals.

The following are the different risk groups governed by the CRO:

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

### Credit Risk

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

With respect to corporate credit risk for Institutional Banking, the 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 for corporate accounts 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 the Institutional Banking Group (IBG) or the ICMG has 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 (APR) for EW2 and EW3 accounts. If deemed appropriate, EW2 and EW3 accounts may be transferred to the Asset Recovery Management Department (ARMD) for handling. Apart from these, the Relationship Manager (RM) who is responsible to improve business relationships with the Bank's clients is required to provide updates during Credit Committee meetings.

The IBG or ARMD RM (depending on the classified account owner) and Litigation Head of the 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), the Credit Committee or the Executive Committee. The APR 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 APR is referenced for the corresponding BSP classification.

Monthly classified accounts are also being prepared by the 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, the 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, the 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, the risk assessment is accomplished through the use of Application and Behavioral credit scorecards. For corporate personal loans and mortgage/housing loans, the risk assessment 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 Risk Scoring/Rating	Y	N	Y	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, the 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 the 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):

		2018			
	Note	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancements
<b>Credit Risk Exposure Relating to On-balance Sheet Assets are as Follows</b>					
Financial assets at amortized cost:					
Due from BSP		P5,001,860	P -	P5,001,860	P -
Due from other banks		1,266,760		1,266,760	-
Interbank loans receivable		6,143,547	-	6,143,547	-
Investment securities	7	2,790,519	-	2,790,519	-
Loans and discounts:	8				
Institutional banking		27,159,345	2,373,656	24,785,689	2,373,656
Retail banking		4,749,208	-	4,749,208	-
Mortgage banking		,970,959	1,969,139	1,820	1,969,139
Small business loans		1,405,705	1,316,073	89,632	1,316,073
Accrued interest receivable		251,763	-	251,763	-
Other receivables		418,272	-	418,272	-
Other assets*		38,570	-	38,570	-
Subtotal		51,196,508	5,658,868	45,537,640	5,658,868
Financial assets at FVTPL:	7				
Quoted debt securities		59,418	-	59,418	-
Derivative assets		67,944	-	67,944	-
Subtotal		127,362	-	127,362	-
Financial assets at FVOCI:	7				
Quoted debt securities		2,399,898	-	2,399,898	-
		53,723,768	5,658,868	48,068,900	5,658,868
<b>Credit Risk Exposures Relating to Off-balance Sheet Items are as Follows</b>					
Credit commitments and other credit related liabilities	25	3,717,904	-	3,717,904	-
<b>Total</b>		<b>P57,441,672</b>	<b>P5,658,868</b>	<b>P51,782,804</b>	<b>P5,658,868</b>

\*Includes returned checks and other cash items and rental deposit

2017

	Note	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		P3,492,926	P -	P3,492,926	P -
Due from other banks		879,093	-	879,093	-
Interbank loans receivable		4,618,098	-	4,618,098	-
Loans and discounts:					
Institutional banking	8	20,351,764	2,688,242	17,663,522	2,688,242
Retail banking		4,073,590	-	4,073,590	-
Mortgage banking		1,852,752	1,309,610	543,142	1,309,610
Small business loans		1,186,294	1,160,855	25,439	1,160,855
Accrued interest receivable		168,494	-	168,494	-
Other receivables		327,489	-	327,489	-
Unquoted debt securities	8	9,553	-	9,553	-
Other assets*		36,225	-	36,225	-
Subtotal		36,996,278	5,158,707	31,837,571	5,158,707
Financial assets at FVTPL:					
Quoted debt securities	7	340,246	-	340,246	-
Derivative assets		75,884	-	75,884	-
Subtotal		416,130	-	416,130	-
AFS investments:					
Quoted debt securities	7	1,057,882	-	1,057,882	-
HTM investments	7	1,110,296	-	1,110,296	-
		39,580,586	5,158,707	34,421,879	5,158,707
Credit Risk Exposures Relating to Off-balance Sheet Items are as Follows					
Credit commitments and other credit related liabilities	25	2,733,114	-	2,733,114	-
Total		P42,313,700	P5,158,707	P37,154,993	P5,158,707

\*Includes returned checks and other cash items and rental deposit

Other receivables include loans granted to employees, sales contract receivable and due from Integrated Credit and Corporate Services (ICCS) and Philippine Veterans Bank (PVB). Other assets in the table above exclude non-financial assets such as computer software costs - net, prepaid expenses and other charges, net retirement asset and miscellaneous.

Contingent liabilities 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.

For financial instruments that 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 financial instruments that are measured at amortized cost, the carrying amount represents the maximum exposure to credit risk as at December 31, 2018 and 2017.

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

	2018	2017
Property	<b>P4,573,675</b>	P4,177,822
Cash	<b>1,024,028</b>	919,866
Others	<b>61,165</b>	61,019
	<b>P5,658,868</b>	P5,158,707



### *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 the 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.

Further details on these commitments are disclosed in Note 25.

### *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):

	2018						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		Total
	Amount	%	Amount	%	Amount	%	
Financial intermediaries*	P7,953,069	22.6	P17,687,417	99.8	P3,717,904	100.1	P29,358,390
Manufacturing	7,235,688	20.6	-	-	-	-	7,235,688
Wholesale and retail	6,596,587	18.7	-	-	-	-	6,596,587
Real estate, renting and business activities	1,904,407	5.4	-	-	-	-	1,904,407
Transport, storage and communications	1,362,868	3.9	-	-	-	-	1,362,868
Construction	836,775	2.4	14,352	0.1	-	-	851,127
Agriculture, hunting and forestry	55,000	0.2	-	-	-	-	55,000
Public administration and defense	-	-	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-	-
Others**	10,010,858	28.3	66,747	0.4	-	-	10,077,605
<b>Total</b>	<b>35,955,252</b>	<b>102.1</b>	<b>17,768,516</b>	<b>100.0</b>	<b>3,717,904</b>	<b>100.1</b>	<b>57,441,672</b>
Loss allowance	(753,383)	(2.1)	(1,140)	0.0	(5,533)	(0.1)	(760,056)
Unearned interest discount and capitalized interest	(4,841)	(0.0)	-	-	-	-	(4,841)
	<b>P35,197,028</b>	<b>100.0</b>	<b>P17,767,376</b>	<b>100.0</b>	<b>P3,712,371</b>	<b>100.0</b>	<b>P56,676,775</b>

\*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.

2017							
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		Total
	Amount	%	Amount	%	Amount	%	
Financial intermediaries	P3,595,955	13.1	P11,574,425	99.7	P2,733,114	100.0	P17,903,494
Manufacturing	8,468,240	30.8	-	-	-	-	8,468,240
Wholesale and retail	4,337,485	15.8	-	-	-	-	4,337,485
Transport, storage and communications	1,413,779	5.1	-	-	-	-	1,413,779
Real estate, renting and business activities	1,263,079	4.6	-	-	-	-	1,263,079
Construction	891,448	3.2	-	-	-	-	891,448
Agriculture, hunting and forestry	50,010	0.2	-	-	-	-	50,010
Public administration and defense	43,421	0.2	-	-	-	-	43,421
Electricity, gas and water	-	-	-	-	-	-	-
Others*	7,906,519	28.7	36,225	0.3	-	-	7,942,744
<b>Total</b>	<b>27,969,936</b>	<b>101.7</b>	<b>11,610,650</b>	<b>100.0</b>	<b>2,733,114</b>	<b>100.0</b>	<b>42,313,700</b>
Loss allowance	(462,511)	(1.7)	-	-	-	-	(462,511)
Unearned interest discount and capitalized interest	(5,131)	(0.0)	-	-	-	-	(5,131)
	<b>P27,502,294</b>	<b>100.0</b>	<b>P11,610,650</b>	<b>100.0</b>	<b>P2,733,114</b>	<b>100.0</b>	<b>P41,846,058</b>

\*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.

Other financial assets include due from BSP, due from other banks, interbank loans receivable and non-equity investment securities.

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 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.

To manage the Bank's concentration of credit as to industry/economic sector, three (3) industry categories has been established with specific credit exposure limits. The inclusion of bankwide industry concentration limit enables the Bank to take a more proactive approach, as it prevents the Bank from unknowingly over-extending loans to identified industries.

The Bank has no credit concentration in any industry sector in 2018. 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.

Monitored Risk category consists of industries (e.g. agriculture, mining and quarrying, construction, land/water/air transport, real estate activities, education, etc) that are deemed to be of high risk. The combined credit exposures of industries tagged under "Monitored Risk category" shall not exceed the 100.0% of the Bank's networth limit.

Restricted category consists of industries (e.g. manufacture of weapons & ammunition, night clubs, public administration and defense, gambling and betting activities, etc) that, given the nature and risk, are considered as higher risk than the Monitored Risk category, thus, extending credit facilities to this category is not allowed.

Standard category are those industries, not tagged under Monitored Risk and Restricted categories, are considered “low risk” and shall have no limit on credit exposures.

CATEGORY	CREDIT EXPOSURE LIMIT
Standard	No limit per industry
Monitored Risk	Limited to 100.0% of the Bank’s net worth
Restricted	No exposures allowed

With the exception of the commercial real estate industry, the Bank will continue to observe the regulatory limit of 20.0% of Total Loan Portfolio (TLP) excluding interbank loans receivable.

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 annually. 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 is recorded together with other information such as the date the ORR is conducted, and the account officer who conducted the ORR. These data combined with other historical and future ORR data on the loan portfolio are used to estimate the loan default rates associated with each rating grade.

It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. These 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 0.0% 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	C
Default	15	C
	16	C
	17	C

\*already equivalent to substandard status

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

Financial assets with ORR categorized under investment grade includes:

- 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.

Financial assets with ORR categorized under sub-investment grade includes:

- below to typically above average jumbo firms,
- below average to very high quality middle market firms, and
- average to very high quality small and medium enterprises.

High risk financial assets represent counterparties that include 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 financial assets are classified loans by the BSP.

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.

#### Impairment Assessment

With the implementation of PFRS 9 alongside the effected BSP Circular 1011, the Bank adopted the ECL methodology to estimate provisions for loans and other credit accommodations.

The ECL model considers losses from initial recognition and at each reporting date. Three stages of impairment are used for the entire financial asset that serves as an objective basis in determining significant increase in credit risk.

Definition of Stages

Institutional Banking and Treasury

DETERIORATION IN CREDIT QUALITY			
	Stage 1	Stage 2	Stage 3
<b>Impairment Stage</b>	No significant increase in credit risk	Significant increase in credit risk	Credit impaired
<b>Recognition of expected credit losses</b>	Collective 12-month ECL when asset is originated or purchased except for a purchased or originated credit impaired	Collective Lifetime ECL when credit quality deteriorates significantly but not credit impaired	Individual Lifetime ECL when credit losses are incurred or asset is credit impaired
<b>Staging Criteria</b>	Early Warning (EW) tagging = EW1a (ORR 1 to 13)	Collective = $\Delta$ Annualized PD variance $\geq 2\%$ Individual = EW tagging = EWb or EW2 (ORR 14)	EW tagging = EW3 (ORR 15 to 17)

The qualitative and quantitative definitions of stages for ECL assessment above apply to institutional banking items which include loans and receivables and off-balance sheet credit commitments and contingents, and to treasury items which include interbank loans receivables, debt investment securities at FVOCI and investment securities at amortized cost.

Collective impairment is applied for assets classified into Stage 1. Assets classified under Stage 2 (with SIICR) are assessed either for collective or individual impairment.

Under the Stage 2 concept, lifetime expected credit losses shall be recognized when there are significant increases in credit risk (SIICR) since initial recognition. Expected credit losses are updated at each reporting date for new information and changes in expectations even if there has not been a significant increase in credit risk.

The three variables under the ECL structure: PD, LGD, and EAD assume the following for the ECL computation:

		PD	X	LGD	X	EAD	= ECL
<b>Collective</b>	Stage 1	1-Year PD		LGD		<ul style="list-style-type: none"> <li>Principal</li> <li>Accrued Interest</li> <li>Contingents</li> <li>Unused committed FAC</li> </ul>	1-Year ECL
	Stage 2.1 SIICR	Lifetime PD		LGD		<ul style="list-style-type: none"> <li>Principal</li> <li>Accrued Interest</li> <li>Contingents</li> <li>Unused committed FAC</li> </ul>	Lifetime ECL
<b>Individual</b>	Stage 2.2 SIICR	100%		Individual Estimation		Individual Estimation	Lifetime ECL
	Stage 3 Objective Impairment	100%		Individual Estimation		Individual Estimation	Lifetime ECL

Stage 3 classified assets will be individually assessed under the Individual Impairment methodology.

Similar to previous model definitions, individual impairment is recognized when (1) an objective evidence of a specific loss event has been observed and (2) the financial asset's carrying value exceeds the present value of the asset's estimated cash flow.

Retail Banking

For Retail, impairment losses are recognized depending on type of impairment applicable, as follows:

a. Specific Impairment

Specific provision shall be applied to accounts with objective evidence that a specific impairment is applicable (e.g., behavior is different from the rest of the portfolio, etc.). Such accounts will no longer be assessed as part a collective impairment. Qualifications are defined on a per product basis, and are reflected accordingly in respective Product Guidelines.

Depending on applicability, specifically impaired accounts shall be subject to either: (1) full provisioning (100% provision), or (2) discounting of cash flow methodology (with provision less than 100% of OB).

b. Collective Impairment

All retail loans accounts not subject to specific impairment shall be subject to collective impairment.

Collectively impaired accounts shall be subject to the ECL Model applicable to Retail Loans portfolio. ECL Model is a function of the PD, LGD, and EAD computed as follows:

$$ECL = PD \times LGD \times EAD$$

Similar to corporate loans, three stages of impairment are used for the entire financial asset of retail loans that serve as an objective basis in determining significant increase in credit risk as shown below. Further, one-year ECL is applied among exposures with no significant increase in credit risk (stage 1); otherwise, lifetime ECL shall be applied.

Definition of stages for retail loans are as follows:

<b>Retail Credit Stage Definition</b>			
	<b>Impairment Stage</b>	<b>Staging Criteria</b>	<b>Loss Period</b>
<b>Stage 1</b>	No significant increase in credit risk	<ul style="list-style-type: none"> <li>• Low credit risk</li> </ul>	12- month ECL
<b>Stage 2</b>	Significant increase in credit risk	<ul style="list-style-type: none"> <li>• Minimum requirement: 31 to 90 days past due</li> <li>• High risk indicator:               <ul style="list-style-type: none"> <li>- Quantitative                   <ul style="list-style-type: none"> <li>- <math>\Delta PD &gt; (\text{product interest} - \text{funding cost})</math></li> <li>- PD equivalent to overdue (CRR of 20)</li> </ul> </li> <li>- Qualitative                   <ul style="list-style-type: none"> <li>- <math>OLTV &gt; 90.0\%</math> and <math>\Delta CLTV &gt; 10.0\%</math></li> <li>- <math>OLTV \leq 90.0\%</math> and <math>CLTV &gt; 100.0\%</math></li> </ul> </li> </ul> </li> <li>• Stage 2 standard               <ul style="list-style-type: none"> <li>- hit minimum requirement OR</li> <li>- hit 2 high risk indicators</li> </ul> </li> </ul>	Lifetime ECL
<b>Stage 3</b>	Credit impaired	<ul style="list-style-type: none"> <li>• NPL definition during model development pre-BSP Circular 941               <ul style="list-style-type: none"> <li>- 91+ days past due</li> <li>- items in litigation</li> <li>- matured with balance</li> <li>- 20.0% unpaid principal and interest</li> </ul> </li> <li>• Charge-off</li> <li>• Restructured</li> <li>• Rescheduled</li> </ul>	Lifetime ECL

To test the sensitivity of the ECL variables to macro-economic factors for both corporate and retail loans the forward-looking methodology is adopted where:

- probability of default uses the Bank's internal default data adjusted by macro-economic factors such as GDP growth, inflation and unemployment rate; and
- loss given default (LGD) applies the two-stage adjustment approach.

There is a rebuttable presumption that default does not occur even when the financial asset is 90 days past due as defined above provided that the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

For credit losses from other financial assets not assessed using the ECL model, the Bank uses a simplified approach where loss allowance always equals to lifetime ECL.



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

	ECL			POCI	Simplified Approach	2018	2017
	Stage 1	Stage 2	Stage 3				
<b>Financial Assets at Amortized Cost</b>							
<i>Due from BSP</i>							
High grade	P5,001,860	P -	P -	P -	P -	P5,001,860	P3,492,926
	5,001,860	-	-	-	-	5,001,860	3,492,926
<i>Due from Other Banks</i>							
High grade	1,266,760	-	-	-	-	1,266,760	879,093
	1,266,760	-	-	-	-	1,266,760	879,093
<i>Interbank Loans</i>							
<i>Receivable</i>							
High grade	6,143,547	-	-	-	-	6,143,547	4,618,098
	6,143,547	-	-	-	-	6,143,547	4,618,098
<b>Investment Securities at Amortized Cost</b>							
<i>Quoted Debt</i>							
High grade	2,790,519	-	-	-	-	2,790,519	1,110,296
	2,790,519	-	-	-	-	2,790,519	1,110,296
<b>Loans and Discounts</b>							
<i>Institutional Banking</i>							
High grade	4,212,878	-	4,356	-	-	4,217,234	1,449,300
Standard grade	13,380,966	-	8,055	-	-	13,389,020	7,386,356
High risk	9,114,814	54,601	34,897	-	-	9,204,312	11,253,808
Watchlist	-	-	-	-	-	-	-
Default	-	-	12,622	-	-	12,622	-
Unrated	-	-	-	-	-	-	-
PD but not individually impaired	-	-	-	-	-	-	-
Specifically impaired	-	-	336,157	-	-	336,157	262,300
	26,708,657	54,601	396,087	-	-	27,159,345	20,351,764
<i>Retail Banking</i>							
High grade	4,396,685	-	-	-	-	4,396,685	2,889,582
Standard grade	-	3,682	-	-	-	3,682	833,021
High risk	-	-	-	-	-	-	63,764
Watchlist	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	18,408
Unrated	-	-	-	-	-	-	-
PD but not individually impaired	-	76,765	-	-	-	76,765	32,959
Specifically impaired	-	-	272,076	-	-	272,076	235,856
	4,396,685	80,447	272,076	-	-	4,749,208	4,073,590
<i>Mortgage Banking</i>							
High grade	1,928,702	-	-	-	-	1,928,702	1,231,549
Standard grade	-	-	-	-	-	-	528,326
High risk	-	-	-	-	-	-	59,083
Watchlist	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	17,102
Unrated	-	-	-	-	-	-	-
PD but not individually impaired	-	27,077	-	-	-	27,077	5,419
Specifically impaired	-	-	15,180	-	-	15,180	11,273
	1,928,702	27,077	15,180	-	-	1,970,959	1,852,752
<b>Small Business Loans</b>							
High grade	-	-	-	-	-	-	1,032,800
Standard grade	1,385,055	-	20,650	-	-	1,405,705	147,409
High risk	-	-	-	-	-	-	-
Watchlist	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	6,084
Unrated	-	-	-	-	-	-	-
	1,385,055	-	20,650	-	-	1,405,705	1,186,293

Forward

	ECL			POCI	Simplified Approach	2018	2017
	Stage 1	Stage 2	Stage 3				
<b>Accrued Interest Receivable</b>							
High grade	P141,659	P -	P -	P -	P -	P141,659	P51,833
Standard grade	35,345	-	-	-	-	35,345	22,013
High risk	5,219	-	-	-	-	5,219	26,431
Watchlist	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	330
Unrated	69,540	-	-	-	-	69,540	67,227
PD but not individually impaired	-	-	-	-	-	-	46
Specifically impaired	-	-	-	-	-	-	614
	<b>251,763</b>	-	-	-	-	<b>251,763</b>	168,494
<b>Others Receivables</b>							
Unrated	-	-	-	-	418,114	418,114	327,489
PD but not individually impaired	-	-	-	-	158	158	-
	-	-	-	-	418,272	418,272	327,489
<b>Unquoted Debt Securities</b>	-	-	-	-	-	-	9,553
<b>Other Assets*</b>	-	-	-	-	38,570	38,570	36,225
<b>Subtotal</b>	<b>49,873,548</b>	<b>161,125</b>	<b>703,993</b>	-	<b>456,842</b>	<b>51,196,508</b>	<b>38,106,573</b>
<b>Financial Assets at FVTPL</b>							
<i>Quoted Debt</i>							
High grade	-	-	-	-	59,418	59,418	340,246
<i>Derivative Assets</i>							
High grade	-	-	-	-	39,768	39,768	-
Unrated	-	-	-	-	28,176	28,176	75,884
	-	-	-	-	67,944	67,944	75,884
<b>Subtotal</b>	-	-	-	-	<b>127,362</b>	<b>127,362</b>	<b>416,130</b>
<b>Financial Assets at FVOCI</b>							
<i>Quoted Debt</i>							
High grade	2,399,898	-	-	-	-	2,399,898	1,057,882
<i>Unquoted Equity Securities</i>							
Standard grade	-	-	-	-	12,441	12,441	12,441
<i>Quoted Equity</i>							
High grade	-	-	-	-	880	880	498
<b>Subtotal</b>	<b>2,399,898</b>	-	-	-	<b>13,321</b>	<b>2,413,219</b>	<b>1,070,821</b>
<b>Total</b>	<b>P49,873,548</b>	<b>P162,125</b>	<b>P703,993</b>	<b>P -</b>	<b>P2,997,423</b>	<b>P53,737,089</b>	<b>P39,593,524</b>

\*Includes returned checks and other cash items and rent deposit

### Corporate Loans

For corporate loans, obligors are considered non-performing even without any missed contractual payments once there are objective indicators of impairment (per BSP MORB §X178.17). However for revolving lines, all other loan accounts of an obligor are considered non-performing if any principal and/or interest remains unpaid for more than thirty (30) days from contractual due date while for term loans, all other loan accounts are considered non-performing if any principal and/or interest remains unpaid in accordance with the following schedule:

Mode of Payment	Classification to NPL
Monthly	91 days after 1 <sup>st</sup> installment in arrears
Quarterly	31 days after 1 <sup>st</sup> installment in arrears
Semi-annual	31 days after 1 <sup>st</sup> installment in arrears

### Retail Loans

In the case of retail loans, the total outstanding balance thereof shall be considered nonperforming if any principal/ interest are unpaid for more than ninety (90) days from contractual due date for Personal Loans and Mortgage Loans, or if any principal/ interest are unpaid for more than thirty (30) days from contractual due date for retail SME.

For both corporate and retail loans, non-performing loans, investments, receivables, or any financial asset, shall remain classified as such until: (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written-off.

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

	2018			2017		
	Less than 30 Days	31 to 90 Days	Total	Less than 30 Days	31 to 90 Days	Total
<b>Loans and Discounts</b>						
Institutional banking	P -	P -	P -	P -	P -	P -
Retail banking	<b>76,765</b>	-	<b>76,765</b>	32,959	-	32,959
Mortgage banking	<b>27,077</b>	-	<b>27,077</b>	5,419	-	5,419
Small business loans	-	-	-	6,084	-	6,084
Other receivable	<b>158</b>	-	<b>158</b>	-	-	-
Accrued interest receivable	-	-	-	46	-	46
<b>Total</b>	<b>P104,000</b>	<b>P -</b>	<b>P104,000</b>	P44,508	P -	P44,508

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 loss allowance 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):

	2018	2017
Institutional banking:		
Performing	<b>P12,622</b>	P18,318
Non-performing	-	91,550
Personal loans:		
Performing	-	4,166
Non-performing	<b>14,930</b>	8,706
Mortgage banking:		
Performing	-	5,397
	<b>P27,552</b>	P128,137

Restructured performing and non-performing loans (NPLs) of the Bank, net of specific impairment allowances as of December 31, 2018 and 2017 amounted to P16.9 million and P42.8 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:

	2018	2017
Secured	<b>P296,832,051</b>	P52,146,082
Unsecured	<b>336,156,582</b>	359,170,190
	<b>P632,988,633</b>	P411,316,272

### *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 loss allowance. 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:

	2018		2017	
	Amount	%	Amount	%
Secured by:				
Real estate	<b>P4,413,728,340</b>	<b>12.3</b>	P4,557,479,034	16.3
Hold-out on deposits	<b>3,293,493,116</b>	<b>9.2</b>	1,229,757,985	4.4
Mortgage trust indenture	<b>410,688,802</b>	<b>1.1</b>	727,512,896	2.6
Chattel	<b>88,724,644</b>	<b>0.2</b>	191,916,079	0.7
Government bonds	<b>68,772,200</b>	<b>0.2</b>	18,898,579	0.1
Stand by letter of credit (LC)	<b>16,036,900</b>	<b>0.0</b>	13,237,514	0.0
Government guarantee	-	<b>0.0</b>	53,048,688	0.2
	<b>8,291,444,002</b>	<b>23.0</b>	6,791,850,775	24.3
Unsecured	<b>27,663,807,614</b>	<b>77.0</b>	21,178,085,113	75.7
	<b>P35,955,251,616</b>	<b>100.0</b>	P27,969,935,888	100.0

As at December 31, 2018 and 2017, the fair values of real estate collaterals held for past due and impaired loans and discounts, amounted to P20.7 million and P29.8 million, respectively. There were no other types of collaterals held during 2018 and 2017.

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 at December 31, 2018 and 2017, 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.

The MRMD is responsible in managing liquidity risk. The 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):

	2018					Total
	On Demand	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than One Year	
Deposit liabilities:						
Demand	P7,647	P -	P -	P -	P -	P7,647
Savings	7,597	-	-	-	-	7,597
Time	10,288	6,849	1,614	1,621	745	21,117
Bills payable	2,945	1,052	-	-	3,913	7,910
Outstanding acceptances	194	-	-	-	-	194
Manager's checks	80	-	-	-	-	80
Accrued interest and other expenses*	429	-	-	-	-	429
Other liabilities**	1,934	-	-	-	-	1,934
	<b>31,114</b>	<b>7,901</b>	<b>1,614</b>	<b>1,621</b>	<b>4,658</b>	<b>46,908</b>
Financial liabilities at FVTPL:						
Forward contract payable	10,071	-	-	-	-	10,071
Forward contract receivable	(10,178)	-	-	-	-	(10,178)
	<b>(107)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(107)</b>
	<b>P31,007</b>	<b>P7,901</b>	<b>P1,614</b>	<b>P1,621</b>	<b>P4,658</b>	<b>P46,801</b>

\*Excludes accrued taxes and other non-financial accruals.

\*\*Excludes withholding taxes payable.

	2017					Total
	On Demand	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than One Year	
Deposit liabilities:						
Demand	P7,312	P -	P -	P -	P -	P7,312
Savings	5,807	-	-	-	-	5,807
Time	5,610	4,230	2,106	608	1,029	13,583
Bills payable	3,845	440	-	-	-	4,285
Outstanding acceptances	264	-	-	-	-	264
Manager's checks	35	-	-	-	-	35
Accrued interest and other expenses*	381	-	-	-	-	381
Other liabilities**	1,161	-	-	-	-	1,161
	<b>24,397</b>	<b>4,670</b>	<b>2,106</b>	<b>608</b>	<b>1,029</b>	<b>32,810</b>
Financial liabilities at FVTPL:						
Forward contract payable	12,422	-	-	-	-	12,422
Forward contract receivable	(11,955)	-	-	-	-	(11,955)
	<b>467</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>467</b>
	<b>P24,882</b>	<b>P4,670</b>	<b>P2,106</b>	<b>P608</b>	<b>P1,029</b>	<b>P33,295</b>

\*Excludes accrued taxes and other non-financial accruals.

\*\*Excludes withholding taxes payable.

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.

Financial liabilities at FVTPL pertain to the notional amounts of the outstanding forward contract as at year end.

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

	2018					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
Commitments	P -	P -	P -	P421,538	P -	P421,538
Contingent liabilities	115,110	2,448,194	648,847	84,215	-	3,296,366
<b>Total</b>	<b>P115,110</b>	<b>P2,448,194</b>	<b>P648,847</b>	<b>P505,753</b>	<b>P -</b>	<b>P3,717,904</b>

	2017					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
Commitments	P -	P -	P -	P -	P -	P -
Contingent liabilities	310,000	502,470	553,130	1,367,514	-	2,733,114
<b>Total</b>	<b>P310,000</b>	<b>P502,470</b>	<b>P553,130</b>	<b>P1,367,514</b>	<b>P -</b>	<b>P2,733,114</b>

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).

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. MRMD, in close coordination with Treasury, also conduct liquidity stress testing to evaluate the potential effects of a set of specified changes in liquidity risk factors on the Bank's financial position under a severe but plausible scenario to assist the Board and senior management in decision making.

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 BSP, due from other banks, interbank loans receivable, financial assets at FVTPL, financial assets at FVOCI (2017: AFS investments), and investment securities at amortized cost (2017: HTM investments) with remaining maturities of less than one month, less derivative liabilities and interbank borrowings. The ratios for the year 2018 and 2017 were as follows:

	2018	2017
<b>December 31</b>	<b>20.7%</b>	<b>24.6%</b>
Average during the year	<b>23.6%</b>	<b>32.6%</b>
Highest	<b>32.0%</b>	<b>39.7%</b>
Lowest	<b>12.1%</b>	<b>24.6%</b>

The analysis on net liquidity using contractual cash flows (in thousands) are as follows:

	2018									Total
	Carrying Value	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	
<b>Assets</b>										
Financial assets at amortized cost:										
Cash and other cash items	P505,000	P505,000	P -	P -	P -	P -	P -	P -	P -	P505,000
Due from BSP	5,001,860	5,001,860	-	-	-	-	-	-	-	5,001,860
Due from other banks	1,266,760	1,266,760	-	-	-	-	-	-	-	1,266,760
Interbank loans receivable - gross	6,142,779	6,143,547	-	-	-	-	-	-	-	6,143,547
Investment securities	2,790,519	-	-	-	19,459	99,999	271,712	-	2,399,349	2,790,519
Loans and discounts - gross	35,197,027	7,637,155	5,158,767	3,410,507	2,473,653	9,820,673	2,438,877	3,334,466	1,681,154	35,955,252
Other assets*	38,570	2,655	668	1,325	1,360	2,900	17,859	8,256	3,547	38,570
<b>Subtotal</b>	<b>50,942,515</b>	<b>20,556,977</b>	<b>5,159,435</b>	<b>3,411,832</b>	<b>2,494,472</b>	<b>9,923,572</b>	<b>2,728,448</b>	<b>3,342,722</b>	<b>4,084,050</b>	<b>51,701,508</b>
Financial assets at FVTPL	127,362	127,362	-	-	-	-	-	-	-	127,362
Financial assets at FVOCI	2,413,219	2,399,898	-	-	-	-	-	-	13,321	2,413,219
<b>Total Financial Assets</b>	<b>53,483,096</b>	<b>23,084,237</b>	<b>5,159,435</b>	<b>3,411,832</b>	<b>2,494,472</b>	<b>9,923,572</b>	<b>2,728,448</b>	<b>3,342,722</b>	<b>4,097,371</b>	<b>54,242,089</b>
<b>Liabilities</b>										
Financial liabilities at FVTPL	25,453	25,453	-	-	-	-	-	-	-	25,453
Other financial liabilities at amortized cost:										
Deposit liabilities	36,361,393	25,532,025	6,848,733	1,613,928	1,621,512	396,952	348,241	-	-	36,361,391
Bills payable	7,910,301	2,944,480	1,051,600	-	-	-	3,914,221	-	-	7,910,301
Outstanding acceptances	194,467	194,467	-	-	-	-	-	-	-	194,467
Manager's checks	80,275	80,275	-	-	-	-	-	-	-	80,275
Accrued interest and other expenses**	429,308	429,308	-	-	-	-	-	-	-	429,308
Other liabilities***	1,934,219	1,934,219	-	-	-	-	-	-	-	1,934,219
<b>Total Financial Liabilities</b>	<b>46,935,416</b>	<b>31,140,227</b>	<b>7,900,333</b>	<b>1,613,928</b>	<b>1,621,512</b>	<b>396,952</b>	<b>4,262,462</b>	<b>-</b>	<b>-</b>	<b>46,935,414</b>
<b>Net Repricing Gap</b>	<b>P6,547,680</b>	<b>(P8,055,990)</b>	<b>(P2,740,898)</b>	<b>P1,797,904</b>	<b>P872,960</b>	<b>P9,526,620</b>	<b>(P1,534,014)</b>	<b>P3,342,722</b>	<b>P4,097,371</b>	<b>P7,306,675</b>

\*Includes returned checks and other cash items and rent deposit

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

	2017									
	Carrying Value	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
<b>Assets</b>										
<b>Loans and receivables:</b>										
<b>Cash and other cash items</b>										
Due from BSP	P452,374	P452,374	P -	P -	P -	P -	P -	P -	P -	P452,374
Due from other banks	3,492,926	3,492,926	-	-	-	-	-	-	-	3,492,926
Interbank loans receivable	879,093	879,093	-	-	-	-	-	-	-	879,093
Loans and discounts - gross	4,618,098	4,618,098	-	-	-	-	-	-	-	4,618,098
Other assets*	27,502,294	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
	36,225	1,632	408	1,440	1,250	2,900	17,367	7,939	3,289	36,225
<b>Subtotal</b>	<b>36,981,010</b>	<b>14,774,901</b>	<b>5,214,583</b>	<b>3,829,471</b>	<b>1,960,941</b>	<b>2,672,157</b>	<b>4,046,723</b>	<b>376,478</b>	<b>4,573,398</b>	<b>37,448,652</b>
<b>Financial assets at</b>										
FVTPL	416,130	75,884	-	-	-	2,735	7,891	146,686	182,934	416,130
AFS investments	1,070,821	-	-	-	-	-	-	-	1,070,821	1,070,821
HTM investments	1,110,296	1,002	-	34,882	19,664	-	100,000	-	954,748	1,110,296
<b>Total Financial Assets</b>	<b>39,578,257</b>	<b>14,851,787</b>	<b>5,214,583</b>	<b>3,864,353</b>	<b>1,980,605</b>	<b>2,674,892</b>	<b>4,154,614</b>	<b>523,164</b>	<b>6,781,901</b>	<b>40,045,899</b>
<b>Liabilities</b>										
<b>Financial liabilities at</b>										
FVTPL	63,147	63,147	-	-	-	-	-	-	-	63,147
<b>Other financial liabilities at amortized cost:</b>										
Deposit liabilities	26,701,901	18,728,772	4,229,690	2,105,853	608,133	700,399	329,054	-	-	26,701,901
Bills payable	4,284,823	3,844,610	440,213	-	-	-	-	-	-	4,284,823
Outstanding acceptances	264,438	264,438	-	-	-	-	-	-	-	264,438
Manager's checks	35,242	35,242	-	-	-	-	-	-	-	35,242
Accrued interest and other expenses**	380,974	380,974	-	-	-	-	-	-	-	380,974
Other liabilities***	1,160,623	1,160,623	-	-	-	-	-	-	-	1,160,623
<b>Total Financial Liabilities</b>	<b>32,891,148</b>	<b>24,477,806</b>	<b>4,669,903</b>	<b>2,105,853</b>	<b>608,133</b>	<b>700,399</b>	<b>329,054</b>	<b>-</b>	<b>-</b>	<b>32,891,148</b>
<b>Asset-liability Gap</b>	<b>P6,687,109</b>	<b>(P9,626,019)</b>	<b>P544,680</b>	<b>P1,758,500</b>	<b>P1,372,472</b>	<b>P1,974,493</b>	<b>P3,825,560</b>	<b>P523,164</b>	<b>P6,781,901</b>	<b>P7,154,751</b>

\*Includes returned checks and other cash items and rent deposit

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

## 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):

	2018		
	Foreign Exchange	Fixed Income	Total VaR
December 31	P1.0	P0.9	P1.2
Average daily	4.1	3.3	5.8
Highest	9.1	32.1	32.5
Lowest	0.5	0.0	0.5

	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	26.0	27.1
Lowest	0.4	0.2	1.2

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.

### 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.

### Interest Rate Risk

The table below summarizes the Bank's exposure to interest rate risk as at December 31, 2018 and 2017.

HFT Summary	2018	2017
USD (PVBP) PHP	<b>P16,213</b>	(P66,248)
PHP (PVBP) PHP	<b>(23,148)</b>	(123,838)

### Foreign Exchange Risk

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2018 and 2017. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (in thousands):

	2018			2017		
	USD	Others	Total	USD	Others	Total
<b>Assets</b>						
Financial assets at amortized cost:						
Cash and other cash items	<b>P69,087</b>	<b>P17,008</b>	<b>P86,095</b>	P58,962	P17,838	P76,800
Due from BSP and other banks	<b>1,040,233</b>	<b>188,030</b>	<b>1,228,263</b>	637,347	174,162	811,509
Interbank loans receivable - net	<b>3,493,135</b>	-	<b>3,493,135</b>	4,358,630	-	4,358,630
Investment securities	<b>2,671,061</b>	-	<b>2,671,061</b>	954,749	-	954,749
Loans and receivables - net	<b>14,281,991</b>	<b>20,130</b>	<b>14,302,121</b>	8,605,030	385,930	8,990,960
Financial assets at FVTPL	<b>67,944</b>	-	<b>67,944</b>	146,878	-	146,878
Financial assets at FVOCI	<b>2,399,898</b>	-	<b>2,399,898</b>	1,057,882	-	1,057,882
	<b>24,023,349</b>	<b>225,168</b>	<b>24,248,517</b>	15,819,478	577,930	16,397,408
<b>Liabilities</b>						
Financial liabilities at amortized cost:						
Deposit liabilities	<b>13,916,766</b>	<b>183,734</b>	<b>14,100,500</b>	11,279,963	53,249	11,333,212
Bills payable	<b>7,910,301</b>	-	<b>7,910,301</b>	3,894,540	390,283	4,284,823
Outstanding acceptances	<b>190,991</b>	<b>3,476</b>	<b>194,467</b>	264,438	-	264,438
Accrued interest and other expenses	<b>45,606</b>	-	<b>45,606</b>	36,227	1,356	37,583
Other liabilities	<b>998,575</b>	<b>5</b>	<b>998,580</b>	68,399	-	68,399
Financial liabilities at FVTPL	<b>25,453</b>	-	<b>25,453</b>	63,147	-	63,147
	<b>23,087,692</b>	<b>187,215</b>	<b>23,274,907</b>	15,606,714	444,888	16,051,602
<b>Net Exposure</b>	<b>P935,657</b>	<b>P37,953</b>	<b>P973,610</b>	P212,764	P133,042	P345,806

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 P0.5 billion (sold) and P1.1 billion (bought) as of December 31, 2018 and P0.7 billion (sold) and P0.6 billion (bought) as of December 31, 2017.

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, 2018 and 2017. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

		2018									
		Sensitivity of Equity									Total
Currency	Increase in bps	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up		
<i>(In Thousand Pesos)</i>											
PHP	15	(P865)	(P49)	P7,198	(P1,593)	(P7,154)	(P1,792)	P -	P -	(P4,255)	
(in 000s)	20	(1,154)	(66)	9,594	(2,123)	(9,532)	(2,384)	-	-	(5,665)	
	25	(1,442)	(82)	11,988	(2,652)	(11,907)	(2,977)	-	-	(7,072)	
USD	15	(386)	(462)	2,621	1,309	(725)	17,822	(892)	(34,328)	(15,041)	
(in 000s)	20	(515)	(616)	3,493	1,744	(966)	23,737	(1,187)	(45,627)	(19,937)	
	25	(643)	(769)	4,365	2,179	(1,207)	29,634	(1,481)	(56,854)	(24,776)	

		2018									
		Sensitivity of Equity									Total
Currency	Decrease in bps	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up		
<i>(In Thousand Pesos)</i>											
PHP	-15	P867	P49	(P7,213)	P1,597	P7,184	P1,805	P -	P -	P4,289	
(in 000s)	-20	1,156	66	(9,621)	2,130	9,586	2,409	-	-	5,726	
	-25	1,445	82	(12,030)	2,664	11,990	3,016	-	-	7,167	
USD	-15	387	462	(2,627)	(1,312)	728	(17,950)	903	34,986	15,577	
(in 000s)	-20	516	617	(3,503)	(1,751)	972	(23,963)	1,206	46,796	20,890	
	-25	645	771	(4,381)	(2,189)	1,216	(29,989)	1,511	58,682	26,266	

		2017									
		Sensitivity of Equity									Total
Currency	Increase in bps	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up		
<i>(In Thousand Pesos)</i>											
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									Total
Currency	Decrease in bps	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up		
<i>(In Thousand Pesos)</i>											
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	

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

	2018					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
<b>Financial Assets</b>						
Financial assets at amortized cost:						
Cash and other cash items	P505,000	P -	P -	P -	P -	P505,000
Due from BSP	5,001,860	-	-	-	-	5,001,860
Due from other banks	1,266,760	-	-	-	-	1,266,760
Interbank loans receivable	6,143,547	-	-	-	-	6,143,547
Investment securities	-	-	-	19,459	2,771,060	2,790,519
Loans and discounts - gross	21,294,028	7,311,342	1,108,577	1,439,170	4,802,135	35,955,252
Other assets*	2,655	668	1,324	1,360	32,563	38,570
Financial assets at FVTPL:						
Quoted debt	59,418	-	-	-	-	59,418
Derivative assets	67,944	-	-	-	-	67,944
Financial assets at FVOCI	2,399,898	-	-	-	13,321	2,413,219
<b>Total Financial Assets</b>	<b>36,741,110</b>	<b>7,312,010</b>	<b>1,109,901</b>	<b>1,459,989</b>	<b>7,619,079</b>	<b>54,242,089</b>
<b>Financial Liabilities</b>						
Financial liabilities at FVTPL	25,453	-	-	-	-	25,453
Other financial liabilities at amortized cost:						
Deposit liabilities:						
Demand	7,646,600	-	-	-	-	7,646,600
Savings	7,597,339	-	-	-	-	7,597,339
Time	10,288,086	6,848,733	1,613,928	1,621,512	745,194	21,117,452
Bills payable and outstanding acceptances	3,138,947	1,051,600	-	-	3,914,221	8,104,768
Manager's checks	80,275	-	-	-	-	80,275
Accrued interest and other expenses**	429,308	-	-	-	-	429,308
Other liabilities***	1,934,219	-	-	-	-	1,934,219
<b>Total Financial Liabilities</b>	<b>31,140,227</b>	<b>7,900,333</b>	<b>1,613,928</b>	<b>1,621,512</b>	<b>4,659,415</b>	<b>46,910,247</b>
<b>Repricing Gap</b>	<b>P5,600,883</b>	<b>(P588,323)</b>	<b>(P504,027)</b>	<b>(P161,523)</b>	<b>P2,959,665</b>	<b>P7,306,675</b>
<b>Cumulative Repricing Gap</b>	<b>P5,600,883</b>	<b>P5,012,560</b>	<b>P4,508,533</b>	<b>P4,347,010</b>	<b>P7,306,675</b>	<b>P -</b>

\*Includes returned checks and other cash items and rent deposit

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

	2017					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
<b>Financial Assets</b>						
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 FVTPL:						
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
<b>Total Financial Assets</b>	<b>25,643,773</b>	<b>8,485,494</b>	<b>2,052,631</b>	<b>955,071</b>	<b>2,908,930</b>	<b>40,045,899</b>
<b>Financial Liabilities</b>						
Financial liabilities at FVTPL	63,147	-	-	-	-	63,147
Other financial liabilities at amortized cost:						
Deposit liabilities:						
Demand	7,312,403	-	-	-	-	7,312,403
Savings	5,806,852	-	-	-	-	5,806,852
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***	1,160,623	-	-	-	-	1,160,623
<b>Total Financial Liabilities</b>	<b>24,477,805</b>	<b>4,669,903</b>	<b>2,105,853</b>	<b>608,133</b>	<b>1,029,453</b>	<b>32,891,147</b>
<b>Repricing Gap</b>	<b>P1,165,968</b>	<b>P3,815,591</b>	<b>(P53,222)</b>	<b>P346,938</b>	<b>P1,879,477</b>	<b>P7,154,752</b>
<b>Cumulative Repricing Gap</b>	<b>P1,165,968</b>	<b>P4,981,559</b>	<b>P4,928,337</b>	<b>P5,275,275</b>	<b>P7,154,752</b>	<b>P -</b>

\*Includes returned checks and other cash items and rent deposit

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

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	
	2018	2017	2018	2017
<b>PHP Interest Rates</b>				
Increase by 15 bps	<b>P41,308,608</b>	P73,159,667	<b>(P80,915,960)</b>	(P77,855,501)
Increase by 20 bps	<b>55,078,144</b>	97,546,222	<b>(107,743,984)</b>	(103,693,344)
Increase by 25 bps	<b>68,847,680</b>	121,932,778	<b>(134,500,334)</b>	(129,474,414)
Decrease by 15 bps	<b>(41,308,608)</b>	(73,159,667)	<b>81,567,669</b>	78,371,288
Decrease by 20 bps	<b>(55,078,144)</b>	(97,546,222)	<b>108,902,583</b>	104,610,302
Decrease by 25 bps	<b>(68,847,680)</b>	(121,932,778)	<b>136,310,656</b>	130,907,168
<b>USD Interest Rates</b>				
Increase by 15 bps	<b>101,884,616</b>	43,580,278	<b>(286,051,936)</b>	(323,451,881)
Increase by 20 bps	<b>135,846,155</b>	58,107,038	<b>(379,178,932)</b>	(429,562,402)
Increase by 25 bps	<b>169,807,694</b>	72,633,797	<b>(471,208,940)</b>	(534,830,450)
Decrease by 15 bps	<b>(101,884,616)</b>	(43,580,278)	<b>296,248,358</b>	331,272,223
Decrease by 20 bps	<b>(135,846,155)</b>	(58,107,038)	<b>397,306,599</b>	443,465,764
Decrease by 25 bps	<b>(169,807,694)</b>	(72,633,797)	<b>499,534,811</b>	556,555,523

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:

	2018		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
<b>Peso-denominated</b>			
<i>Financial Assets</i>			
Due from BSP	<b>0.3%</b>	-	-
Due from other banks	<b>0.2%</b>	-	-
Interbank loans receivable	<b>4.5%</b>	-	-
Loans and receivables	<b>5.1%</b>	<b>6.7%</b>	<b>11.2%</b>
Financial assets at FVTPL	<b>0.4%</b>	<b>0.1%</b>	<b>6.6%</b>
Financial assets at FVOCI	-	-	-
Investment securities at amortized cost	<b>4.9%</b>	-	<b>4.3%</b>
<i>Financial Liabilities</i>			
Deposit liabilities	<b>1.1%</b>	<b>2.9%</b>	<b>1.3%</b>
Bills payable	<b>3.5%</b>	-	-
<b>Foreign Currency-denominated</b>			
<i>Financial Assets</i>			
Due from other banks	<b>0.9%</b>	-	-
Interbank loans receivable	<b>1.7%</b>	-	-
Loans and receivables	<b>3.3%</b>	<b>3.4%</b>	<b>1.6%</b>
Financial assets at FVTPL	-	-	<b>3.4%</b>
Financial assets at FVOCI	-	-	<b>5.3%</b>
Investment securities at amortized cost	-	-	<b>2.8%</b>
<i>Financial Liabilities</i>			
Deposit liabilities	<b>1.3%</b>	<b>2.2%</b>	<b>1.6%</b>
Bills payable	<b>2.5%</b>	-	-

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

#### *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.

#### 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 Risk Control Self-Assessment 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 ensures 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.

#### *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. 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, 2018 and 2017 (in millions except for percentages).

	<b>2018</b>	2017
Tier 1 capital	<b>P6,926</b>	P6,795
Tier 2 capital	<b>405</b>	321
Gross qualifying capital	<b>7,331</b>	7,116
Less: Required deductions	-	-
<b>Total Qualifying Capital</b>	<b>P7,331</b>	P7,116
<b>Risk-weighted Assets</b>	<b>P44,878</b>	P36,674
Tier 1 capital ratio	<b>15.4%</b>	18.5%
Tier 2 capital ratio	<b>0.9%</b>	0.9%
Risk-based capital adequacy ratio	<b>16.3%</b>	19.4%

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.

<b>Level of CET 1 Capital</b>	<b>Restriction on Distributions</b>
<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.

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## 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*

The unquoted equity securities of the Bank are measured at fair value. However, due to the lack of suitable methods of arriving at a reliable fair value, the cost is determined to be an appropriate estimate of fair value. The unquoted equity securities are instead measured at their carrying amounts (cost less allowance). These are interests in BancNet, Philippine Clearing House Corporation and Bankers Association of the Philippines held as per membership requirement.

### *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 due to lack of suitable methods of arriving at reliable fair value.

### *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.

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Financial assets at amortized cost:				
Cash and other cash items	<b>P504,999,873</b>	<b>P504,999,873</b>	P452,374,266	P452,374,266
Due from BSP	<b>5,001,859,955</b>	<b>5,001,859,955</b>	3,492,925,784	3,492,925,784
Due from other banks	<b>1,266,759,792</b>	<b>1,266,759,792</b>	879,092,880	879,092,880
Interbank loans receivable - net	<b>6,142,778,572</b>	<b>6,142,778,572</b>	4,618,098,194	4,618,098,194
Investment securities	<b>2,790,519,408</b>	<b>2,772,729,200</b>	-	-
Loans and discounts - net:				
Institutional banking	<b>26,885,170,309</b>	<b>26,885,170,309</b>	20,192,492,370	20,192,492,370
Retail banking	<b>4,357,133,540</b>	<b>4,120,606,747</b>	3,832,272,110	3,685,392,099
Mortgage banking	<b>1,949,554,745</b>	<b>1,970,958,906</b>	1,847,968,804	1,694,487,194
Small business loans	<b>1,402,740,860</b>	<b>1,402,740,860</b>	1,186,133,205	1,186,133,205
Accrued interest receivable	<b>226,360,644</b>	<b>226,360,644</b>	159,306,776	159,306,776
Other receivables	<b>376,067,160</b>	<b>376,067,160</b>	274,618,593	274,618,593
Unquoted debt securities	-	-	9,501,705	9,501,705
Other assets*	<b>38,569,682</b>	<b>38,569,682</b>	36,225,264	36,225,264
Subtotal	<b>50,942,514,540</b>	<b>50,709,601,700</b>	36,981,009,951	36,680,648,330
Financial assets at FVTPL:				
Held-for-trading:				
Quoted debt	<b>59,417,929</b>	<b>59,417,929</b>	340,245,505	340,245,505
Derivative assets	<b>67,944,513</b>	<b>67,944,513</b>	75,884,166	75,884,166
Subtotal	<b>127,362,442</b>	<b>127,362,442</b>	416,129,671	416,129,671
Financial assets at FVOCI:				
Quoted debt	<b>2,399,898,231</b>	<b>2,399,898,231</b>	-	-
Unquoted equity	<b>12,440,817</b>	<b>12,440,817</b>	-	-
Quoted equity	<b>880,000</b>	<b>880,000</b>	-	-
Subtotal	<b>2,413,219,048</b>	<b>2,413,219,048</b>	-	-
AFS investments:				
Quoted debt	-	-	1,057,882,388	1,057,882,388
Unquoted equity	-	-	12,440,817	12,440,817
Quoted equity	-	-	498,000	498,000
Subtotal	-	-	1,070,821,205	1,070,821,205
HTM investments:				
Quoted debt	-	-	1,110,295,691	1,139,671,875
	<b>P53,483,096,030</b>	<b>P53,250,183,190</b>	P39,578,256,518	P39,307,271,081
<b>Financial Liabilities</b>				
Financial liabilities at FVTPL:				
	<b>P25,452,851</b>	<b>P25,452,851</b>	P63,147,488	P63,147,488
Financial liabilities at amortized cost:				
Deposit liabilities:				
Demand	<b>7,646,599,849</b>	<b>7,646,599,849</b>	7,312,403,130	7,312,403,130
Savings	<b>7,597,339,059</b>	<b>7,597,339,059</b>	5,806,852,492	5,806,852,492
Time	<b>21,117,452,342</b>	<b>21,117,452,342</b>	13,582,645,361	13,582,645,361
Subtotal	<b>36,386,844,101</b>	<b>36,386,844,101</b>	26,765,048,471	26,765,048,471
Bills payable	<b>7,910,300,863</b>	<b>7,910,300,863</b>	4,284,822,838	4,284,822,838
Outstanding acceptances	<b>194,467,418</b>	<b>194,467,418</b>	264,437,832	264,437,832
Manager's checks	<b>80,275,446</b>	<b>80,275,446</b>	35,241,990	35,241,990
Accrued interest and other expenses**	<b>429,308,139</b>	<b>429,308,139</b>	380,974,185	380,974,185
Other liabilities***	<b>1,934,218,558</b>	<b>1,934,218,558</b>	1,160,623,126	1,160,623,126
	<b>P46,935,414,525</b>	<b>P46,935,414,525</b>	P32,891,148,442	P32,891,148,442

\*Includes returned checks and other cash items and rent deposit

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

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

	PHP			
	2018		2017	
	High	Low	High	Low
Loans and discounts:				
Retail banking	12.1%	2.1%	16.2%	2.0%
Mortgage banking	9.0%	5.3%	7.6%	5.0%
Small business loans	-	-	-	-

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.

	2018			
	Level 1	Level 2	Level 3	Total
<b>Financial Assets at FVTPL</b>				
Quoted debt	P59,418	P -	P -	P59,418
Derivative assets	-	67,944	-	67,944
<b>FVOCI Investments</b>				
Quoted debt	2,399,898	-	-	2,399,898
Unquoted equity	-	-	12,441	12,441
Quoted equity	-	880	-	880
<b>Financial Liabilities at FVTPL</b>	P -	P25,453	P -	P25,453
	2017			
	Level 1	Level 2	Level 3	Total
<b>Financial Assets at FVTPL</b>				
Quoted debt	P340,246	P -	P -	P340,246
Derivative assets	-	75,884	-	75,884
<b>FVOCI Investments</b>				
Quoted debt	1,057,882	-	-	1,057,882
Unquoted equity	-	-	12,441	12,441
Quoted equity	-	498	-	498
	P1,398,128	P76,382	P12,441	P1,486,951
<b>Financial Liabilities at FVTPL</b>	P -	P63,147	P -	P63,147

The fair values of Level 1 instruments are based on the Bloomberg Valuation Service (BVAL) reference rates as used as the benchmark of PHP government securities in the active market of which comprise the quoted debt securities at FVTPL at reporting date. These BVAL reference rates are based on accumulated market data and real-time market observations on actively traded identical fixed income securities.

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 2018 and 2017, there were no transfers between Level 1 to Level 2 category and no transfers into and out of Level 3 fair value measurements.

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## 7. Investment Securities

The effective interest rates of the Bank's debt securities range from 1.1% to 8.3% and 1.0% to 6.7% in 2018 and 2017, respectively.

### *Financial Assets at FVTPL*

Financial assets at FVTPL consist of the following:

	<b>Note</b>	<b>2018</b>	2017
Government debt securities		<b>P59,417,929</b>	P281,069,268
Derivative assets	27	<b>67,944,513</b>	75,884,166
Corporate debt securities		-	59,176,237
		<b>P127,362,442</b>	P416,129,671

The Bank's debt securities and derivative assets are mandatorily classified as at FVTPL on initial recognition.

Net unrealized gain (loss) in 2018 and 2017 on revaluation to market of financial assets at FVTPL amounting to P2.7 million and (P2.3 million), respectively, are included under "Trading and securities gain - net" in the statements of income.

### *Financial Assets at FVOCI*

Financial assets at FVOCI consist of the following:

	<b>2018</b>
Government debt securities	<b>P2,399,898,231</b>
Unquoted equity securities	<b>12,440,817</b>
Quoted equity securities	<b>880,000</b>
	<b>P2,413,219,048</b>

Quoted equity securities include club shares from Orchard Golf and Country Club and Subic Bay Yacht Club Corporation which were irrevocably designated at FVOCI as at January 1, 2018. In 2017, these investments were classified as AFS investments.

Unquoted equity securities are held as required by the local requirement (PCHC), consortium for ATM networks and on-line banking (Bancnet) and membership with the BAP.

The movements of net unrealized gain (loss) on financial assets at FVOCI are as follows:

	<b>Note</b>	<b>2018</b>
Balance at the beginning of year		<b>(P15,506,159)</b>
Adjustment on initial application of PFRS 9	29	<b>28,713,556</b>
Restated balance at beginning of the year		<b>13,207,397</b>
Net realized gains or losses recognized in OCI:		
Unrealized losses recognized in OCI		<b>(138,317,638)</b>
Allowance for impairment losses	12	<b>(372,112)</b>
Amount realized in the statements of income		<b>31,389,312</b>
		<b>(107,300,438)</b>
Balance at end of year		<b>(P94,093,041)</b>

In 2018, effective interest rates range from 1.1% to 5.3% for foreign currency-denominated FVOCI debt securities. As at December 31, 2018, there were no outstanding peso-denominated FVOCI debt securities.

*Investment Securities at Amortized Cost*

Investment securities at amortized cost consist of Philippine government treasury notes that bear nominal annual interest rates ranging from 2.3% to 6.9% for 2018.

As of December 31, 2018, the carrying value of investment securities at amortized cost amounted to P2.8 billion.

Interest income on investment securities consists of:

	<b>2018</b>
Investment securities at amortized cost	<b>P65,430,862</b>
Financial assets at FVOCI	<b>80,611,774</b>
Financial assets at FVTPL	<b>14,598,029</b>
	<b>P160,640,665</b>

Trading and securities gain - net consists of:

	<b>2018</b>
Financial assets at FVOCI - debt securities	<b>P31,389,312</b>
Financial assets at FVTPL	<b>(17,324,675)</b>
	<b>P14,064,637</b>

Net gain on derivative transactions amounting to P32.0 million in 2018, is included under "Foreign exchange gain - net" in the statements of income.

*AFS Investments*

AFS investments consisted of the following:

	<b>2017</b>
Government debt securities	P1,057,882,388
Unquoted equity securities	12,440,817
Quoted equity securities	498,000
	<b>P1,070,821,205</b>

In 2017, effective interest rates ranged from 2.5% to 3.9% for foreign currency-denominated AFS investments. As at December 31, 2017, there were no outstanding peso-denominated AFS investments.

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

	2017
Balance at beginning of year	(P28,926,484)
Net realized gains or losses recognized in OCI:	
Unrealized losses recognized in other comprehensive income	(7,655,238)
Amount realized in the statements of income	21,075,563
	13,420,325
Balance at end of year	(P15,506,159)

*HTM Investments*

HTM investments consisted of Philippine government treasury notes that carried nominal annual interest rates ranging from 2.1% to 10.6% for 2017.

As at December 31, 2017, the carrying value of investment securities at amortized cost amounted to P1.1 billion.

Interest income on investment securities consisted of:

	2017
HTM investments	P32,091,577
AFS investments	31,155,453
Financial assets at FVTPL	29,834,951
	P93,081,981

Trading and securities gain - net consisted of:

	2017
AFS investments	P21,075,563
Financial assets at FVTPL	(9,657,180)
	P11,418,383

Net gain on derivative transactions amounting to P83.0 million in 2017 was included under "Foreign exchange gain - net" in the statements of income.



## 8. Loans and Receivables - net

This account consists of:

	<b>Note</b>	<b>2018</b>	2017
Loans and discounts:			
Institutional banking	<b>P27,159,345,372</b>	P20,351,764,139	
Retail banking	<b>4,749,208,390</b>	4,073,590,111	
Mortgage banking	<b>1,970,958,907</b>	1,852,752,342	
Small business loans	<b>1,405,705,244</b>	1,186,293,180	
Accrued interest receivable	<b>251,763,381</b>	168,494,339	
Other receivables	<b>418,270,322</b>	327,489,277	
	<b>35,955,251,616</b>	27,960,383,388	
Unquoted debt securities	-	9,552,500	
	<b>35,955,251,616</b>	27,969,935,888	
Unearned interest discount and capitalized interest	<b>(4,841,127)</b>	(5,131,503)	
	<b>35,950,410,489</b>	27,964,804,385	
Loss allowance	12 <b>(753,383,231)</b>	(462,510,822)	
	<b>P35,197,027,258</b>	P27,502,293,563	

Institutional loans and Small Business loans include domestic bills purchased amounting to P71.0 million and P242.0 million as of December 31, 2018 and 2017, respectively (see Note 16).

Other receivables include due from ICCS and PVB representing impaired loans amounting to P176.4 million and P177.8 million as of December 31, 2018 and 2017, 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 P7.2 million as of December 31, 2018 and 2017, respectively, which bear fixed interest rates per annum ranging from 8.5% to 10.5% in 2018 and 2017.

Unquoted debt securities represent government bonds not quoted in an active market. As at December 31, 2017, these investments were classified as loans and receivables in accordance with PAS 39.

Interest income on loans and receivables consists of:

	<b>2018</b>	2017
Retail banking	<b>P1,092,261,226</b>	P967,821,210
Institutional banking	<b>1,030,537,484</b>	737,300,700
Mortgage banking	<b>162,331,393</b>	159,793,467
Small business loans	<b>5,722,269</b>	4,738,353
Unquoted debt securities	<b>118,127</b>	699,484
Other receivables	<b>2,959,837</b>	2,876,633
	<b>P2,293,930,336</b>	P1,873,229,847

The effective interest rates of loans and discounts, unquoted debt securities and sales contract receivables range from 3.0% to 3.7% and 2.7% to 2.9% for foreign currency-denominated receivables in 2018 and 2017, respectively. The effective interest rates of foreign currency-denominated receivables range from 8.9% to 10.5% and 8.1% to 9.6% for peso-denominated receivables in 2018 and 2017, respectively.

As at December 31, 2018 and 2017, the Bank's loan portfolio includes non-risk loans, as defined under BSP regulations, totaling P3.0 billion and P1.2 billion, respectively.

As of December 31, 2018, 28.3% of the total loans of the Bank are subject to periodic interest repricing (2017: 15.8%). Remaining loans earn annual fixed interest rates ranging from 7.3% to 21.07% in 2018 and from 1.0% to 37.5% in 2017 for peso-denominated.

There is no interest income accrued on loans and receivables which includes unwinding of the loss allowance as of December 31, 2018 and 2017.

## 9. Property and Equipment - net

The composition and movements of this account are as follows:

	2018					Total
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
<b>Cost</b>						
Balance at beginning of year	P80,229,255	P204,789,446	P102,325,301	P80,348,631	P361,813,011	P829,505,644
Additions	-	3,277,931	15,253,363	481,451	1,031,672	20,044,417
Disposals	-	(10,552,724)	(21,090,143)	(2,330,358)	(9,740,662)	(43,713,887)
<b>Balance at end of year</b>	<b>80,229,255</b>	<b>197,514,653</b>	<b>96,488,521</b>	<b>78,499,724</b>	<b>353,104,021</b>	<b>805,836,174</b>
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	45,578,230	159,883,411	53,178,817	72,229,065	343,661,101	674,530,624
Depreciation and amortization	3,709,868	22,327,560	17,108,812	2,317,805	8,316,407	53,780,453
Disposals	-	(10,552,562)	(14,078,766)	(2,330,289)	(9,485,481)	(36,447,098)
<b>Balance at end of year</b>	<b>49,288,098</b>	<b>171,658,409</b>	<b>56,208,863</b>	<b>72,216,582</b>	<b>342,492,027</b>	<b>691,863,979</b>
<b>Net Book Value at End of Year</b>	<b>P30,941,157</b>	<b>P25,856,244</b>	<b>P40,279,658</b>	<b>P6,283,142</b>	<b>P10,611,994</b>	<b>P113,972,195</b>

	2017					Total
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
<b>Cost</b>						
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)
<b>Balance at end of year</b>	<b>80,229,255</b>	<b>204,789,448</b>	<b>102,325,301</b>	<b>80,348,631</b>	<b>361,813,011</b>	<b>829,505,646</b>
<b>Accumulated Depreciation and Amortization</b>						
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)
<b>Balance at end of year</b>	<b>45,578,231</b>	<b>159,883,412</b>	<b>53,178,817</b>	<b>72,229,065</b>	<b>343,661,100</b>	<b>674,530,625</b>
<b>Net Book Value at End of Year</b>	<b>P34,651,024</b>	<b>P44,906,036</b>	<b>P49,146,484</b>	<b>P8,119,566</b>	<b>P18,151,911</b>	<b>P154,975,021</b>

As at December 31, 2018 and 2017, there were no property and equipment pledged as collateral for liabilities.

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## 10. Investment Properties - net

The Bank's investment properties consist of house and lot and condominium units. Movements in this account in 2018 and 2017 follow:

	2018	2017
<b>Cost</b>		
Balance at beginning of year	<b>P116,432,696</b>	P96,701,846
Additions	<b>71,245,611</b>	43,074,950
Disposals	<b>(4,759,713)</b>	(23,344,100)
<b>Balance at end of year</b>	<b>182,918,594</b>	116,432,696
<b>Accumulated Depreciation</b>		
Balance at beginning of year	<b>4,914,447</b>	2,947,443
Depreciation	<b>3,986,204</b>	2,710,593
Disposals	<b>(313,163)</b>	(743,589)
<b>Balance at end of year</b>	<b>8,587,488</b>	4,914,447
<b>Allowance for Impairment Losses</b>		
Balance at beginning of year	<b>1,742,011</b>	25,720
Impairment losses	<b>370,360</b>	1,716,291
<b>Balance at end of year</b>	<b>2,112,371</b>	1,742,011
<b>Net Book Value at End of Year</b>	<b>P172,218,735</b>	P109,776,238

The Bank does not occupy repossessed properties for business use.

The aggregate fair value of the investment properties of the Bank amounted to P176.4 million and P113.8 million as of December 31, 2018 and 2017, 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.

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## 11. Other Assets

This account consists of:

	Note	2018	2017
Computer software costs - net		<b>P222,672,953</b>	P46,806,899
Prepaid expenses and other charges		<b>39,288,749</b>	24,480,861
Rental deposit		<b>36,259,628</b>	34,897,612
Net retirement asset	19	<b>15,040,544</b>	-
Returned checks and other cash items		<b>2,310,055</b>	1,327,652
Miscellaneous		<b>127,654,184</b>	275,358,390
		<b>P443,226,113</b>	P382,871,414

Prepaid expenses and other charges include prepayments for medical insurance, rent, and software maintenance, and deferred charges.

Miscellaneous assets include hardware and software items under installation process, documentary stamps on hand, and stationery and office supplies. As of December 31, 2018 and 2017, hardware and software items under installation process amounted to P67.2 million and P255.3 million, respectively.

The movements in computer software costs follow:

	2018	2017
<b>Cost</b>		
Balance at beginning of year	<b>P381,352,354</b>	P454,175,602
Additions	<b>209,278,025</b>	14,754,659
Disposals	<b>(34,001,075)</b>	(87,577,907)
<b>Balance at end of year</b>	<b>556,629,304</b>	381,352,354
<b>Accumulated Amortization</b>		
Balance at beginning of year	<b>334,545,455</b>	388,072,153
Amortization	<b>33,411,885</b>	33,384,896
Disposals	<b>(34,000,989)</b>	(86,911,594)
<b>Balance at end of year</b>	<b>333,956,351</b>	334,545,455
	<b>P222,672,953</b>	P46,806,899

As at December 31, 2018 and 2017, there were no other assets pledged as collateral for liabilities.

## 12. Loss Allowance on Financial Instruments

Composition and movements in loss allowance on financial assets are as follows:

	2018				Total
	Loans and Receivables	Interbank Loans Receivable	Financial Assets at FVOCI	Off-balance Sheet Commitments and Contingents	
Balance at beginning of year	P462,510,822	P -	P -	P -	P462,510,822
Adjustment on initial application of PFRS 9	234,274,632	3,806,689	-	3,169,665	241,250,986
Balance at January 1, 2018	696,785,454	3,806,689	-	3,169,665	703,761,808
Impairment losses (reversals)	214,993,208	(3,208,848)	372,054	2,235,531	214,391,945
Accounts charged off and others	(160,512,537)	-	-	-	(160,512,537)
Effect of foreign exchange	2,117,106	170,427	58	128,159	2,415,750
Balance at end of year	P753,383,231	P768,268	P372,112	P5,533,355	P760,056,966

The loss allowance on loans and receivables includes the loss allowances for sales contract receivables and accounts receivables amounting to P1.48 million and P2.2 million for 2018 and 2017, respectively.

The loss allowance on financial assets at FVOCI is not recognized in the statements of financial position because the carrying amounts of these assets are their fair values. The loss allowance is recognized as part of the "Net unrealized loss on financial asset at FVOCI" in the statements of OCI.

The loss allowance on off-balance sheet commitments and contingents is recognized by the Bank as an additional provision under "Other liabilities" in the statements of financial position.

Movements in the loss allowance on loans and receivables are as follows:

	2018					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	P154,192,782	P4,781,817	P159,975	P241,318,001	P62,058,247	P462,510,822
Adjustment on initial application of PFRS 9	99,843,971	25,345,689	4,336,836	104,494,246	253,890	234,274,632
Balance at January 1, 2018	254,036,753	30,127,506	4,496,811	345,812,247	62,312,137	696,785,454
Impairment losses (reversals)	45,588,736	(9,423,868)	(1,552,177)	180,500,454	(119,937)	214,993,208
Accounts charged off and others	(26,429,498)	(3,816,098)	-	(130,266,941)	-	(160,512,537)
Effect of foreign exchange	2,100,518	-	16,588	-	-	2,117,106
Balance at end of year	P275,296,509	P16,887,540	P2,961,222	P396,045,760	P62,192,200	P753,383,231

	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	(114,918,101)	-	-	(127,974,920)	(18,091,040)	(260,984,061)
Effect of foreign exchange	(36,192)	-	-	-	2,628	(33,564)
Balance at end of year	P154,192,782	P4,781,817	P159,975	P241,318,001	P62,058,247	P462,510,822

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument:

	2018				
	Stage 1	Stage 2	Stage 3	Simplified Approach	Total
<b>Loans and Receivables</b>					
Balance at beginning of the year	P226,607,537	P35,478,880	P381,828,353	P52,870,684	P696,785,454
Movement of beginning balance:					
Transfer to Stage 1	7,165,430	(6,232,393)	(933,037)	-	-
Transfer to Stage 2	(2,957,295)	3,078,583	(121,288)	-	-
Transfer to Stage 3	(9,236,986)	(13,164,682)	22,401,668	-	-
Net remeasurement of loss allowance	(157,734,961)	5,591,464	42,406,933	(1,146,607)	(110,883,171)
New financial assets originated or purchased	246,236,009	19,806,196	59,834,174	-	325,876,379
Write-offs	-	-	(160,512,537)	-	(160,512,537)
Subtotal	310,079,734	44,558,048	344,904,266	51,724,077	751,266,125
Effect of foreign exchange	-	-	-	-	2,117,106
Balance at end of the year	P310,079,734	P44,558,048	P344,904,266	51,724,077	P753,383,231

	2018	2017
	Stage 1	Total
<b>Interbank Loans Receivable</b>		
Balance at beginning of the year	P3,806,689	P -
Net remeasurement of loss allowance	(3,806,689)	-
New financial assets originated or purchased	597,841	-
Write-offs	-	-
Effect of foreign exchange	170,427	-
Balance at end of year	P768,268	P -

	2018	2017
	Stage 1	Total
<b>Financial Assets at FVOCI</b>		
Balance at beginning of the year	P -	P -
Net remeasurement of loss allowance	-	-
New financial assets originated or purchased	372,054	-
Write-offs	-	-
Effect of foreign exchange	58	-
Balance at end of year	P372,112	P -

	2018	2017
	Stage 1	Total
<b>Off-balance Sheet Commitments and Contingents</b>		
Balance at beginning of the year	P3,169,665	P -
Net remeasurement of loss allowance	2,235,531	-
New financial assets originated or purchased	-	-
Write-offs	-	-
Effect of foreign exchange	128,159	-
Balance at end of year	P5,533,355	P -

The breakdown of impairment losses is as follows:

	2018		
	Individual Impairment	Collective Impairment	Total
Loans and receivables:			
Loans and discounts	P43,330,405	P167,320,757	P210,651,162
Other receivables	1,795,118	2,546,928	4,342,046
Interbank loans receivable	-	(3,208,848)	(3,208,848)
Financial assets at FVOCI	-	372,054	372,054
Off-balance sheet commitments and contingents	-	2,235,531	2,235,531
<b>Total</b>	<b>P45,125,523</b>	<b>169,266,422</b>	<b>214,391,945</b>

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

#### *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. Definitions of each classification are as follows:

- I. Pass - These are loans or other credit accommodations that do not have a greater-than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.
- II. Especially Mentioned (EM) - These are loans or other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these make affect the repayment of the loan.
- III. Substandard - These are loans or other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
- IV. Doubtful - These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable.

Under Regulatory reporting, effective August 29, 2018, BSP Circular 1011 requires a general loan loss provision equivalent to one percent (1.0%) of the outstanding balance of collectively and individually assessed loans when estimated/computed provisions are less than one percent (<1.0%) and/or no specific provisions are made, excluding loans which are considered non-risk under existing laws, rules, and regulations.

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

	2018	2017
NPLs	<b>P632,988,633</b>	P411,316,272
Less NPLs fully provided with loss allowance	<b>69,946,505</b>	182,325,217
	<b>P563,042,128</b>	P228,991,055

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### 13. Deposit Liabilities

As of December 31, 2018 and 2017, non-interest bearing deposits are 1.6% and 2.1% of the total deposits, respectively. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.1% to 1.3% in 2018 and 2017.

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.

On February 15, 2018, the BSP issued Circular No. 997 which reduced the reserve requirement to 19.0% effective on the reserve week starting on March 2, 2018.

On May 24, 2018, the BSP issued Circular No. 1004 which further reduced the reserve requirement to 18.0% effective on the reserve week starting on June 1, 2018.

In 2018 and 2017, the Bank is in compliance with such reserve requirements regulations.

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

	<b>2018</b>	2017
Due from BSP	<b>P4,500,428,728</b>	P3,445,013,191
	<b>P4,500,430,746</b>	P3,445,013,191

Interest expense on deposit liabilities consists of:

	<b>2018</b>	2017
Time	<b>P486,930,223</b>	P181,108,053
Demand	<b>14,121,792</b>	17,636,757
Savings	<b>17,026,483</b>	16,135,656
	<b>P518,078,498</b>	P214,880,466

Accrued interest payable on deposit liabilities amounted to P63.6 million and P41.0 million in 2018 and 2017, respectively.

#### **14. Bills Payable**

This account consists of short-term and long-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.



As at December 31, 2018 and 2017, the Bank's bills payable amounted to P7.9 billion and P4.3 billion, respectively.

Foreign currency denominated interbank borrowings are subject to annual fixed interest rates ranging from 1.0% to 4.1% in 2018 and from 1.2% to 3.5% in 2017.

Interest expense on bills payable amounted to P94.8 million and P22.6 million in 2018 and 2017, respectively.

Accrued interest payable on bills payable amounted to P16.0 million and P5.7 million in 2018 and 2017, respectively.

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## 15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	<i>Note</i>	<b>2018</b>	2017
Accrued taxes and other expenses		<b>P366,520,690</b>	P348,876,601
Accrued interest payable	13, 14	<b>79,615,956</b>	46,650,924
Net retirement liability	19	-	32,234,224
		<b>P446,136,646</b>	P427,761,749

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

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## 16. Other Liabilities

This account consists of:

	<i>Note</i>	<b>2018</b>	2017
Accounts payable		<b>P1,828,149,326</b>	P899,677,405
Bills purchased - contra	8	<b>70,969,246</b>	241,975,300
Withholding taxes payable		<b>33,670,156</b>	29,550,981
Provision liability	12	<b>5,533,355</b>	-
Payment order payable		<b>4,399,910</b>	1,806,607
Miscellaneous		<b>25,166,721</b>	17,163,814
		<b>P1,967,888,714</b>	P1,190,174,107

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.

Provision liability pertains to loss allowance on the Bank's off-balance sheet commitments and contingents.

Miscellaneous includes unclaimed manager's check for more than one year and unclaimed balances of credit or deposits with the Bank as defined by the Revised Unclaimed Balances Act of 2013.

## 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 one year after the reporting period (in thousands):

	2018			2017		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
<b>Financial Assets</b>						
Financial assets at amortized cost:						
Cash and other cash items	P505,000	P -	P505,000	P452,374	P -	P452,374
Due from BSP	5,001,860	-	5,001,860	3,492,926	-	3,492,926
Due from other banks	1,266,760	-	1,266,760	879,093	-	879,093
Investment securities	19,459	2,771,060	2,790,519	-	-	-
Interbank loans receivable - gross	6,143,547	-	6,143,547	4,618,098	-	4,618,098
Loans and receivables - gross	18,680,083	17,275,169	35,955,252	16,332,675	11,637,261	27,969,936
Other assets*	6,008	32,562	38,570	4,730	31,495	36,225
	31,622,717	20,078,791	51,701,508	25,779,896	11,668,756	37,448,652
Financial assets at FVTPL	68,947	58,415	127,362	75,884	340,246	416,130
Financial assets at FVOCI	525,704	1,887,515	2,413,219	-	-	-
AFS investments	-	-	-	-	1,070,821	1,070,821
HTM investments	-	-	-	55,548	1,054,748	1,110,296
	32,217,368	22,024,721	54,242,089	25,911,328	14,134,571	40,045,899
<b>Non-financial Assets</b>						
Property and equipment - net	-	113,972	113,972	-	154,975	154,975
Investment properties - net	-	172,219	172,219	-	109,776	109,776
Deferred tax assets - net	-	200,954	200,954	-	136,619	136,619
Other assets	88,466	316,190	404,656	31,922	314,724	346,646
	88,466	803,335	891,801	31,922	716,094	748,016
	32,305,834	22,828,056	55,133,890	25,943,250	14,850,665	40,793,915
Less: Loss allowance	351,867	402,285	754,152	391,693	70,818	462,511
Unearned discount and capitalized interest	3,178	1,663	4,841	3,037	2,094	5,131
	P31,950,789	P22,424,108	P54,374,897	P25,548,520	P14,777,753	P40,326,273

\*Includes returned checks and other cash items and rent deposit

	2018			2017		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
<b>Financial Liabilities</b>						
Financial liabilities at FVTPL						
	P25,453	P -	P25,453	P63,147	P -	P63,147
Financial liabilities at amortized cost:						
Deposit liabilities	35,616,198	745,193	36,361,391	25,672,448	1,029,453	26,701,901
Bills payable	3,996,080	3,914,221	7,910,301	4,284,823	-	4,284,823
Outstanding acceptances	194,467	-	194,467	264,438	-	264,438
Manager's checks	80,275	-	80,275	35,242	-	35,242
Accrued interest and other expenses**	429,308	-	429,308	380,974	-	380,974
Other liabilities***	1,934,219	-	1,934,219	1,160,623	-	1,160,623
	42,276,000	4,659,414	46,935,414	31,861,695	1,029,453	32,891,148
<b>Non-financial Liabilities</b>						
Accrued taxes	16,829	-	16,829	46,788	-	46,788
Income tax payable	24,999	-	24,999	18,596	-	18,596
Other liabilities	33,670	-	33,670	29,551	-	29,551
	75,498	-	75,498	94,935	-	94,935
	P42,351,498	P4,659,414	P47,010,912	P31,956,630	P1,029,453	P32,986,083

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

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## 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, 2018 and 2017.

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, 2018 and 2017, 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.

#### *Restricted Retained Earnings*

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 at December 31, 2018 and 2017, the Bank's total unimpaired capital as reported to the BSP amounted to P6.9 billion and P6.8 billion, respectively.

*Appropriation for the Deficiency on General Loan Loss Provision (GLLP)*

BSP Circular 1011 requires the Bank to set up GLLP equivalent to 1.0% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. In cases when the computed loss allowance on such Stage 1 accounts is less than the 1.0% percent general provision required, the deficiency shall be recognized by appropriating the Retained Earnings account.

As at December 31, 2018, the computed loss allowance on Stage 1 on-balance sheet loans is less than the required general provision by P10.2 million. However, the Bank does not have unrestricted retained earnings to cover said deficiency. The retained earnings amounting to P4.9 billion have already been fully restricted for specified purposes (see discussion on Restricted Retained Earnings).

*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, 2018 and 2017, retained earnings appropriated for the following purposes are as follows (amounts in thousands):

	<b>2018</b>	2017
Treasury share acquisition	<b>P15,952</b>	P15,952
Trust operations	<b>4,981</b>	4,981
Total appropriated retained earnings	<b>P20,933</b>	P20,933

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## **19. Compensation and Fringe Benefits**

The account consists of:

	<b>2018</b>	2017
Employee benefits		
Salaries and wages	<b>P647,566,860</b>	P638,517,940
Fringe benefits	<b>184,269,857</b>	178,495,070
Medical allowances	<b>35,648,703</b>	34,970,144
Retirement benefit expense	<b>14,881,981</b>	20,857,694
Employer contributions	<b>12,733,995</b>	12,053,555
	<b>895,101,396</b>	884,894,403
Directors' fees	<b>6,149,453</b>	6,142,245
	<b>P901,250,849</b>	P891,036,648

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 26, 2018.

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:

	2018	2017
<b>Components of Retirement Benefit Liability</b>		
<b>Recorded in the Statements of Income</b>		
Current service cost	<b>P14,060,008</b>	P22,911,929
Net interest expense (income):		
Interest expense	<b>5,466,951</b>	8,788,367
Interest income	<b>(4,644,978)</b>	(10,842,602)
	<b>14,881,981</b>	20,857,694
<b>Components of Retirement Benefit Liability</b>		
<b>Recorded in OCI</b>		
Remeasurement (gain) loss on defined benefits obligation	<b>(38,001,950)</b>	55,518,237
Remeasurement loss on plan assets	<b>3,128,832</b>	13,398,750
	<b>(34,873,118)</b>	68,916,987
<b>Total</b>	<b>(P19,991,137)</b>	P89,774,681

The remeasurement losses on retirement plan, net of tax, for the years ended December 31, 2018 and 2017 are presented in the statements of income.

	2018	2017
Remeasurement (loss) gain on retirement liability at beginning of year	<b>(P55,407,993)</b>	P13,508,994
Net remeasurement gain (loss) recognized in OCI:		
Change in remeasurement gain (loss) on retirement liability during the year	<b>34,873,118</b>	(68,916,987)
Change in deferred tax on remeasurement losses on retirement liability during the year	<b>(10,461,935)</b>	-
Change in deferred tax on remeasurement losses on retirement liability on prior years	<b>16,622,398</b>	-
	<b>41,033,581</b>	(68,916,987)
	<b>(P14,374,412)</b>	(P55,407,993)

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

	2018	2017
Fair value of plan assets	<b>P192,807,981</b>	P182,156,005
Present value of defined benefits obligation	<b>(177,767,437)</b>	(214,390,229)
Net retirement asset (liability)	<b>P15,040,544</b>	(P32,234,224)

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

	2018	2017
Balance at beginning of year	<b>P214,390,229</b>	P156,935,125
Current service cost	<b>14,060,008</b>	22,911,929
Interest expense	<b>5,466,951</b>	8,788,367
Benefits paid	<b>(18,147,801)</b>	(29,763,429)
Remeasurement (gains) losses on obligation arising from:		
Change in financial assumptions	<b>(51,144,552)</b>	11,545,109
Experience adjustment	<b>13,142,602</b>	43,973,128
Balance at end of year	<b>P177,767,437</b>	P214,390,229

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

	2018	2017
Balance at beginning of year	<b>P182,156,005</b>	P193,617,888
Interest income	<b>4,644,978</b>	10,842,602
Contribution to plan assets	<b>27,283,631</b>	20,857,694
Benefits paid	<b>(18,147,801)</b>	(29,763,429)
Remeasurement loss on plan assets	<b>(3,128,832)</b>	(13,398,750)
Balance at end of year	<b>P192,807,981</b>	P182,156,005

The actual gain (loss) return on plan assets amounted to P1.5 million and (P2.6) million in 2018 and 2017, respectively.

The Bank expects to contribute P27.3 million to its defined benefits retirement plan in 2018 (2017: P30.0 million).

The retirement benefit expense under "Compensation and fringe benefits" in the statements of income is recognized as follows:

	2018	2017
Current service cost	<b>P14,060,008</b>	P22,911,929
Net interest expense (income)	<b>821,973</b>	(2,054,235)
	<b>P14,881,981</b>	P20,857,694

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

	2018	2017
Debt securities	<b>68.8%</b>	59.0%
Equity investments	<b>14.3%</b>	11.9%
Loans	<b>9.2%</b>	7.4%
Due from banks	<b>6.9%</b>	21.0%
Accrued interest receivables	<b>0.7%</b>	0.6%
Dividends receivable	<b>0.1%</b>	0.1%
	<b>100.0%</b>	100.0%

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

	<b>In Percentages</b>	
	<b>2018</b>	<b>2017</b>
Discount rate	<b>7.7%</b>	5.1%
Salary increase rate	<b>4.0%</b>	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, 2018 and 2017, the weighted average duration of defined benefit obligation is 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:

	<b>2018</b>			
	<b>Discount Rate</b>		<b>Salary Increase Rate</b>	
	<b>+0.5%</b>	<b>-0.5%</b>	<b>+0.5%</b>	<b>-0.5%</b>
Defined benefit obligation	<b>(P7,546,172)</b>	<b>P8,185,591</b>	<b>P8,042,875</b>	<b>(P7,480,100)</b>
Retirement liability	<b>(7,546,172)</b>	<b>8,185,591</b>	<b>8,042,875</b>	<b>(7,480,100)</b>

	<b>2017</b>			
	<b>Discount Rate</b>		<b>Salary Increase Rate</b>	
	<b>+0.5%</b>	<b>-0.5%</b>	<b>+0.5%</b>	<b>-0.5%</b>
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)

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, 2018 and 2017 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 2018 and 2017.

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.



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## 20. Leases

Rent, utilities and equipment maintenance expenses recognized under “Occupancy and other equipment-related costs” in the statements of income are presented below:

	2018	2017
Rent	<b>P132,274,316</b>	P128,621,052
Power, light and water	<b>21,540,991</b>	19,829,844
Repairs and maintenance	<b>71,056,222</b>	68,837,062
	<b>P224,871,529</b>	P217,287,958

Rent pertains to expenses incurred on transactions where 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 2.0% to 10.0%. The lease agreements do not have contingent rent provisions.

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

	2018	2017
Within one year	<b>P104,550,205</b>	P99,411,456
After one year but not more than five years	<b>106,574,711</b>	175,765,917
	<b>P211,124,916</b>	P275,177,373

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## 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 P203.5 million and P176.3 million in 2018 and 2017, 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 (included under “Miscellaneous expenses” account in the statements of income) in 2018 and 2017, 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:

	<b>2018</b>	2017
RCIT	<b>P146,514,417</b>	P111,615,784
Final	<b>26,830,189</b>	29,308,453
MCIT	<b>75,761</b>	327,030
	<b>173,420,367</b>	141,251,267
Deferred	<b>6,736,685</b>	(30,434,593)
	<b>P180,157,052</b>	P110,816,674

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

	<b>2018</b>	2017
Deferred tax assets:		
Loss allowance	<b>P219,144,352</b>	P139,159,910
Unamortized past service costs	<b>6,261,712</b>	6,725,696
Remeasurement loss	<b>6,160,463</b>	-
Accumulated depreciation of investment properties	<b>5,089,264</b>	3,627,466
Net retirement liability	-	9,670,267
	<b>236,655,791</b>	159,183,339
Deferred tax liabilities:		
Unrealized gain on non-financial asset	<b>15,211,200</b>	11,025,339
Unrealized mark-to-market gain on derivatives	<b>12,895,999</b>	-
Revaluation of AR trustee	<b>7,594,600</b>	7,594,600
Unrealized mark-to-market gain on derivatives	-	3,944,876
	<b>35,701,799</b>	22,564,815
	<b>P200,953,992</b>	P136,618,524

The movement in the deferred tax balances as recognized in the statements of income and statements of OCI as is follows:

	Balance at Beginning of Year	Adjustment on Initial Application of PFRS 9	Restated balance at Beginning of Year	Recognized in Profit or Loss	Recognized in OCI	Balance at December 31, 2018		
						Net	Deferred Tax Assets	Deferred Tax Liabilities
Loss allowance:								
Loans and receivables	P138,637,307	P63,930,227	P202,567,534	P14,176,295	P -	P216,743,829	P216,743,829	P -
Interbank loans receivable	-	30,564	30,564	76,241	-	106,805	106,805	-
Off-balance sheet commitments and contingents	-	950,899	950,899	709,108	-	1,660,007	1,660,007	-
Investment property	522,603	-	522,603	111,108	-	633,711	633,711	-
Unamortized past service costs	6,725,696	-	6,725,696	(463,984)	-	6,261,712	6,261,712	-
Remeasurement	-	-	-	-	6,160,463	6,160,463	6,160,463	-
Accumulated depreciation of investment properties	3,627,466	-	3,627,466	1,461,798	-	5,089,264	5,089,264	-
Net retirement liability	9,670,267	-	9,670,267	(9,670,267)	-	-	-	-
Revaluation gain on AR trustee	(7,594,600)	-	(7,594,600)	-	-	(7,594,600)	-	(7,594,600)
Unrealized mark-to-market gain on derivatives	(3,944,876)	-	(3,944,876)	(8,951,123)	-	(12,895,999)	-	(12,895,999)
Unrealized gain on non-financial asset	(11,025,339)	-	(11,025,339)	(4,185,861)	-	(15,211,200)	-	(15,211,200)
Deferred tax assets (liabilities)	P136,618,524	P64,911,690	P201,530,214	(P6,736,685)	P6,160,463	P200,953,992	P236,655,791	(P35,701,799)

	Balance at Beginning of Year	Recognized in Profit or Loss	Balance at December 31, 2017		
			Net	Deferred Tax Assets	Deferred Tax Liabilities
Loss allowance:					
Loans and receivables	P156,150,390	(P17,513,083)	P138,637,307	P138,637,307	P -
Investment property	7,716	514,887	522,603	522,603	-
Net retirement (asset) liability	(11,004,829)	20,675,096	9,670,267	9,670,267	-
Unamortized past service costs	7,965,474	(1,239,778)	6,725,696	6,725,696	-
Accumulated depreciation of investment properties	2,931,534	695,932	3,627,466	3,627,466	-
Unrealized mark-to-market gain on derivatives	(32,395,120)	28,450,244	(3,944,876)	-	(3,944,876)
Revaluation gain on AR trustee	(10,159,072)	2,564,472	(7,594,600)	-	(7,594,600)
Unrealized gain on non-financial asset	(7,312,162)	(3,713,177)	(11,025,339)	-	(11,025,339)
Deferred tax assets (liabilities)	P106,183,931	P30,434,593	P136,618,524	P159,183,339	(P22,564,815)

The Bank did not recognize deferred tax assets on the following:

	2018	2017
Loss allowance	<b>P31,688,165</b>	P386,465
Excess of MCIT over RCIT	<b>75,761</b>	12,995
	<b>P31,763,926</b>	P399,460

Management believes that it is not likely that these will be realized in the future.

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

	2018	2017
Statutory income tax rate	<b>30.0%</b>	30.0%
Tax effects of:		
FCDU income	<b>4.3</b>	(1.3)
Nondeductible operating expense	<b>3.7</b>	2.3
Tax-paid and tax-exempt income	<b>2.6</b>	0.2
Nondeductible interest expense	<b>1.3</b>	2.0
Others	<b>1.3</b>	(5.4)
Effective income tax rate	<b>43.2%</b>	27.8%

## 22. Income and Expenses

In the following table, service fees and commission income from contracts with customers in the scope of PFRS 15 is disaggregated by major type of service. The table also includes a reconciliation of the disaggregated service fees and commission income with the Bank's reportable segments (see Note 24).

	2018				Total
	Treasury	Institutional Banking	Retail Banking	Others	
Deposit-related	P268	P72,458	P47,535	(P9)	P120,252
Credit-related	-	2,697	85,585	(45)	88,237
Miscellaneous	-	2,644	41,151	6,972	50,767
	<b>P268</b>	<b>P77,799</b>	<b>P174,271</b>	<b>P6,918</b>	<b>P259,256</b>

	2017				Total
	Treasury	Institutional Banking	Retail Banking	Others	
Deposit-related	P498	P57,794	P41,277	(P22)	P99,547
Credit-related	-	2,967	99,768	(46)	102,689
Miscellaneous	-	1,561	36,682	5,408	43,651
	P498	P62,322	P177,727	P5,340	P245,887

Miscellaneous income consists of:

	2018	2017
Recovery on charged-off assets	<b>P60,738,165</b>	P64,216,177
Unrealized gain from non-financial assets	<b>21,438,217</b>	19,116,378
Income from trust division	<b>8,993,323</b>	8,136,237
Dividend income	<b>2,801,240</b>	4,066,000
Income from assets acquired	<b>1,909,561</b>	6,963,143
Rent income - safety deposit box	<b>635,418</b>	648,707
(Loss) income from assets sold/exchanged	<b>(27,988)</b>	16,578
Other income	<b>31,540,423</b>	35,768,086
	<b>P128,028,359</b>	P138,931,306

Other income mainly consists of proceeds from sale of cash cards. The following table shows the disaggregation of other income by the reportable segments of the Bank.

	2018	2017
Retail Banking	<b>P23,811,743</b>	P18,819,415
Institutional Banking	<b>6,628,818</b>	9,837,790
Treasury	<b>1,099,862</b>	7,109,005
Others	<b>-</b>	1,876
	<b>P31,540,423</b>	P35,768,086

Miscellaneous expenses consist of:

	2018	2017
Insurance	<b>P74,735,057</b>	P60,566,716
Management and professional fees	<b>42,707,332</b>	30,884,536
Office supplies	<b>26,344,439</b>	22,785,198
Postage and cable	<b>23,258,748</b>	18,701,647
Litigation	<b>13,109,967</b>	9,576,360
Banking and supervision fees	<b>11,563,538</b>	9,898,056
Telecommunications	<b>8,485,284</b>	8,592,624
Travel and transportation	<b>5,758,893</b>	5,700,177
Advertising	<b>3,893,990</b>	10,230,060
Membership dues	<b>2,262,263</b>	2,032,510
Bank charges	<b>2,019,916</b>	2,022,084
Freight	<b>1,353,644</b>	2,500,242
Entertainment and representation	<b>1,273,992</b>	1,304,326
Fuel and lubricants	<b>631,191</b>	465,981
Other expenses	<b>30,141,027</b>	28,531,558
	<b>P247,539,281</b>	P213,792,075

Other expenses consist of fees paid for periodicals, VISA and check processing. The following table shows the disaggregation of other expense by the reportable segments of the Bank.

	2018	2017
Retail banking	<b>P20,859,766</b>	P20,389,680
Treasury	<b>6,698,942</b>	6,668,165
Institutional banking	<b>2,533,901</b>	1,413,533
Others	<b>48,418</b>	60,180
	<b>P30,141,027</b>	P28,531,558

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### 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, 2018 and 2017, total assets held by the Bank's Trust Department amounted to P1.5 billion and P1.7 billion, respectively (see Note 25).

In connection with the trust operations of the Bank, government securities with carrying value of P19.5 million and P19.6 million (face value of P20.0 million) as of December 31, 2018 and 2017, 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, 2018 and 2017, the reserve for trust functions recorded under "Statutory reserve" in the statements of financial position amounted to P5.0 million.

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### 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 the 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 PFRS as of and for the years ended December 31, 2018 and 2017 (amount in thousands):

	2018				Total
	Treasury	Institutional Banking	Retail Banking	Others	
Net interest income					
Third party Intersegment	P96,319	P725,008	P1,141,922	P -	P1,963,249
	53,901	(226,568)	172,965	(298)	-
	150,220	498,440	1,314,887	(298)	1,963,249
Non-interest income	84,264	87,382	309,360	7,230	488,236
Revenue - net of interest expense	234,484	585,822	1,624,247	6,932	2,451,485
Non-interest expenses	103,626	295,275	916,507	718,565	2,033,973
Income (loss) before income taxes	130,858	290,547	707,740	(711,633)	417,512
Income taxes	137,319	23,620	19,147	71	180,157
Net (loss) income	(P6,461)	P266,927	P688,593	(P711,704)	P237,355
Service fees and commission income	P268	P77,799	P174,271	P6,918	P259,256
Depreciation and amortization	P1,591	P1,995	P24,887	P29,294	P57,767
Software amortization	P4,172	P2,122	P4,564	P22,554	P33,412
Impairment losses	(P2,833)	P45,131	P172,032	P62	P214,392

	2017				Total
	Treasury	Institutional Banking	Retail Banking	Others	
Net interest income					
Third party Intersegment	P101,412	P659,072	P1,045,332	P -	P1,805,816
	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
Service fees and commission income	P498	P62,322	P177,727	P5,340	P245,887
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

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

	Year	Segment Assets	Segment Liabilities	Capital Expenditures
<b>Treasury</b>	<b>2018</b>	<b>P13,965,949</b>	<b>P7,955,737</b>	<b>P1,676</b>
	2017	8,584,592	4,387,609	2,169
<b>Institutional Banking</b>	<b>2018</b>	<b>28,848,378</b>	<b>20,759,230</b>	<b>493</b>
	2017	21,180,165	13,258,059	2,902
<b>Retail Banking</b>	<b>2018</b>	<b>11,276,432</b>	<b>16,781,370</b>	<b>5,500</b>
	2017	10,107,122	14,661,762	28,072
<b>Others</b>	<b>2018</b>	<b>284,138</b>	<b>1,514,575</b>	<b>12,375</b>
	2017	454,393	678,653	42,415
<b>Total</b>	<b>2018</b>	<b>P54,374,897</b>	<b>P47,010,912</b>	<b>P20,044</b>
Total	2017	P40,326,272	P32,986,083	P75,558

Presented below is the summary of information on reportable segments:

	2018	2017
<b>Revenues - net of interest expense</b>		
Total revenue for reportable segments	<b>P2,451,485</b>	P2,351,137
<b>Income before Taxes</b>		
Total profit for reportable segments	<b>417,512</b>	398,771
<b>Assets</b>		
Total assets for reportable segments	<b>54,374,897</b>	40,326,272
<b>Liabilities</b>		
Total liabilities for reportable segments	<b>47,010,912</b>	32,986,083

## 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	2018	2017
Unused commercial letters of credit		<b>P3,296,366</b>	P2,733,114
Outward bills for collection		<b>1,141,728</b>	1,820,499
Trust department accounts	23	<b>1,499,267</b>	1,666,700
Credit commitments		<b>421,538</b>	-
Others		<b>23,339</b>	3,555

As at December 31, 2018 and 2017, off-balance sheet commitments and contingent liabilities with credit risk exposure amounted to P3.7 million and P2.7 million. These include unused commercial letters of credit and credit commitments which are subject to ECL starting January 1, 2018.



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## 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):

	2018	2017
Total outstanding DOSRI loans	<b>P725</b>	P1,102
Percent of DOSRI loans to total loan portfolio	<b>0.0%</b>	0.0%
Percent of unsecured DOSRI loans to total DOSRI loans	-	-
Percent of past due DOSRI loans to total DOSRI loans	-	-
Percent of non-performing DOSRI loans to total DOSRI loans	-	-

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank’s subsidiaries and affiliates shall not exceed 10.0% of bank’s net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) are as follows:

Category/Transaction	Year	Amount of the Transaction	Outstanding Balance		Terms	Conditions
			Due from Related Parties	Due to Related Parties		
<b>Parent</b>						
<i>Current Deposits</i>						
Deposits	2018	P5,241,379,621	P35,532,396	P -	Demandable;	Unsecured;
Withdrawals		(5,272,460,445)	-	-	non-interest bearing	no impairment
Deposits	2017	3,450,300,514	-	-	Demandable;	Unsecured;
Withdrawals		(3,491,980,834)	66,613,220	-	non-interest bearing	no impairment
<i>Bills Payable</i>						
Availments	2018	23,369,159,004	-	-	1-7days;	Unsecured;
Settlements		(19,203,608,141)	-	7,910,300,863	interest bearing	no impairment
Availments	2017	7,374,148,158	-	-	1-7days;	Unsecured;
Settlements		(3,607,960,415)	-	3,744,750,000	interest bearing	no impairment
<i>Interest Expense on Bills Payable</i>						
	2018	93,121,232	-	16,039,805	Demandable;	Unsecured;
	2017	14,277,779	-	4,146,132	interest bearing	no impairment
<b>Entities under Common Control</b>						
<i>Current Deposits to CTBC - New York</i>						
Deposits	2018	-	-	-	Demandable;	Unsecured;
Withdrawals		-	-	-	non-interest bearing	no impairment
Deposits	2017	390,053,234	-	-	Demandable;	Unsecured;
Withdrawals		(414,591,713)	-	-	non-interest bearing	no impairment
<i>Current Deposits to CTBC - Hongkong</i>						
Deposits	2018	95,249,054	19,342,198	-	Demandable;	Unsecured;
Withdrawals		(105,537,531)	-	-	non-interest bearing	no impairment
Deposits	2017	928,045,215	29,630,675	-	Demandable;	Unsecured;
Withdrawals		(973,881,029)	-	-	non-interest bearing	no impairment
<i>Current Deposits to CTBC - Canada</i>						
Deposits	2018	82,117,506	1,270,298	-	Demandable;	Unsecured;
Withdrawals		(82,497,939)	-	-	non-interest bearing	no impairment
Deposits	2017	37,170,133	1,650,731	-	Demandable;	Unsecured;
Withdrawals		(36,674,657)	-	-	non-interest bearing	no impairment
<b>Key Management Personnel</b>						
<i>Loans and Receivables</i>						
Additions	2018	12,545,468	22,724,617	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Collections		(13,807,035)	-	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Additions	2017	21,196,213	23,986,184	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Collections		(21,360,137)	-	-		
<i>Interest Income on Loans and Receivables</i>						
	2018	1,844,371	1,844,371	-	Demandable;	Unsecured;
	2017	1,928,951	1,928,951	-	interest bearing	no impairment
<b>Other Related Parties</b>						
Employees' retirement fund held by Trust Operations						
<i>Deposit Liabilities</i>						
Deposits	2018	420,469,392	-	1,579,635	1-3years,	Secured,
Withdrawals		(420,467,497)	-	-	interest bearing	no impairment
Deposits	2017	357,568,455	-	1,577,740	1-3years,	Secured,
Withdrawals		(356,554,238)	-	-	interest bearing	no impairment
<i>Interest Expense on Deposit Liabilities</i>						
	2018	5,226	-	-	Demandable;	Unsecured;
	2017	34,056	-	-	interest bearing	no impairment
<b>TOTAL</b>	<b>2018</b>	<b>P4,217,512,286</b>	<b>P80,713,880</b>	<b>P7,927,920,303</b>		
<b>TOTAL</b>	<b>2017</b>	<b>P3,671,719,685</b>	<b>P123,809,761</b>	<b>P3,750,473,872</b>		

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

Impairment losses recognized on loans and receivables from key management personnel is P0.2 million for the year ended December 31, 2018 (2017: nil).

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

	<b>2018</b>	2017
Short-term benefits	<b>P102,892,441</b>	P117,926,986
Post-employment benefits	<b>6,597,256</b>	11,721,994
Other long-term benefits	<b>3,318,208</b>	953,021
	<b>P112,807,905</b>	P130,602,001

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, 2018 and 2017.

As of December 31, 2018 and 2017, the carrying values of the Bank's retirement plan assets, which approximate its fair value, amounted to P192.8 million and P182.2 million, respectively (see Note 19).

## 27. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2018 and 2017 and are not indicative of either market risk or credit risk (in thousands).

	2018		Notional Amount
	Assets	Liabilities	
<b>Freestanding Derivatives - Currency forwards and swaps</b>			
Buy:			
USD/PHP	<b>P882</b>	<b>P25,353</b>	<b>USD69,750</b>
Sell:			
USD/PHP	<b>67,062</b>	<b>100</b>	<b>USD102,532</b>
	<b>P67,944</b>	<b>P25,453</b>	
	2017		
	Assets	Liabilities	Notional Amount
<b>Freestanding Derivatives - Currency forwards and swaps</b>			
Buy:			
USD/EUR	P -	P502	USD1,783
USD/JPY	60	-	USD300
USD/PHP	3,786	62,170	USD110,840
Sell:			
USD/PHP	72,038	475	USD125,897
	<b>P75,884</b>	<b>P63,147</b>	

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. Currency swaps are contractual agreements to exchange principal and interest payments at fixed intervals denominated in two different currencies.

The net movements in fair value changes of derivatives are as follows (amount in thousands):

	2018	2017
Net derivative asset at beginning of year	<b>P12,737</b>	P115,983
Net changes in fair value of derivatives	<b>29,713</b>	(103,623)
Fair value of settled contracts	<b>42</b>	377
Net derivative asset at end of year	<b>P42,492</b>	P12,737

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## 28. Financial Performance

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

	<b>2018</b>	2017
a. Net income	<b>P237,355,239</b>	P287,954,120
b. Weighted average number of outstanding common shares <sup>1</sup>	<b>247,564,631</b>	247,564,631
c. Basic/Diluted EPS (a/b)	<b>P0.96</b>	P1.16

<sup>1</sup> 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:

	<b>2018</b>	2017
a. Net income	<b>P237,355,239</b>	P287,954,120
b. Average total equity	<b>7,215,686,789</b>	7,279,470,459
Return on average equity (a/b)	<b>3.3%</b>	4.0%
c. Net income	<b>P237,355,239</b>	P287,954,120
d. Average total assets	<b>47,671,052,392</b>	37,982,896,841
Return on average assets (c/d)	<b>0.5%</b>	0.8%
e. Net interest income	<b>P1,963,249,288</b>	P1,805,815,596
f. Average interest earning assets	<b>45,648,452,999</b>	37,690,295,706
Net interest margin on average earning assets (e/f)	<b>4.3%</b>	4.8%

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. Classification and Measurement of Financial Instruments under PFRS 9

The following table provides a reconciliation between line items in the statements of financial position and categories of financial instruments:

	Note	2018					Total Carrying Amount
		Mandatorily at FVTPL	Designated as at FVTPL	FVOCI - Debt Instruments	FVOCI - Equity Instruments	Amortized Cost	
<b>Financial Assets</b>							
Cash and other cash items	17	P -	P -	P -	P -	P504,999,873	P504,999,873
Due from BSP	17	-	-	-	-	5,001,859,955	5,001,859,955
Due from other banks	17	-	-	-	-	1,266,759,792	1,266,759,792
Interbank loans receivable - net	-	-	-	-	-	6,142,778,572	6,142,778,572
Financial assets at FVTPL	7, 17	127,362,442	-	-	-	-	127,362,442
Financial assets at FVOCI	7, 17	-	-	2,399,898,231	13,320,817	-	2,413,219,048
Investment securities at AC	7, 17	-	-	-	-	2,790,519,408	2,790,519,408
Loans and receivables - net	8	-	-	-	-	35,197,027,258	35,197,027,258
Other assets*	17	-	-	-	-	38,569,682	38,569,682
<b>Total Financial Assets</b>		<b>P127,362,442</b>	<b>P -</b>	<b>P2,399,898,231</b>	<b>P13,320,817</b>	<b>P50,942,514,540</b>	<b>P53,483,096,030</b>
<b>Financial Liabilities</b>							
Deposit liabilities	13, 17	P -	P -	P -	P -	P36,361,391,250	P36,361,391,250
Financial liabilities at FVTPL	17, 27	25,452,851	-	-	-	-	25,452,851
Bills payable	14, 17	-	-	-	-	7,910,300,863	7,910,300,863
Outstanding acceptances	17	-	-	-	-	194,467,418	194,467,418
Manager's checks	17	-	-	-	-	80,275,446	80,275,446
Accrued interest and other expenses**	17	-	-	-	-	429,308,139	429,308,139
Other liabilities***	17	-	-	-	-	1,934,218,558	1,934,218,558
<b>Total Financial Liabilities</b>		<b>P25,452,851</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P46,909,961,674</b>	<b>P46,935,414,525</b>

\*Includes returned checks and other cash items and rent deposit

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

2017							
	Note	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Available-for-Sale	Other Amortized Cost	Total Carrying Amount
<b>Financial Assets</b>							
Cash and other cash items	17	P -	P -	P452,374,266	P -	P -	P452,374,266
Due from BSP	17	-	-	3,492,925,784	-	-	3,492,925,784
Due from other banks	17	-	-	879,092,880	-	-	879,092,880
Interbank loans receivable – net		-	-	4,618,098,194	-	-	4,618,098,194
Financial assets at FVTPL	7, 17	416,129,671	-	-	-	-	416,129,671
Financial assets at FVOCI	7, 17	-	-	-	1,070,821,205	-	1,070,821,205
Investment securities at AC	7, 17	-	1,110,295,691	-	-	-	1,110,295,691
Loans and receivables - net	8, 17	-	-	27,502,293,563	-	-	27,502,293,563
Other assets*	17	-	-	36,225,264	-	-	36,225,264
<b>Total Financial Assets</b>		<b>P416,129,671</b>	<b>P1,110,295,691</b>	<b>P36,981,009,951</b>	<b>P1,070,821,205</b>	<b>P -</b>	<b>P39,578,256,518</b>
<b>Financial Liabilities</b>							
Deposit liabilities	13, 17	P -	P -	P -	P -	P26,701,900,983	P26,701,900,983
Financial liabilities at FVTPL	17, 27	63,147,488	-	-	-	-	63,147,488
Bills payable	14, 17	-	-	-	-	4,284,822,838	4,284,822,838
Outstanding acceptances	17	-	-	-	-	264,437,832	264,437,832
Manager's checks	17	-	-	-	-	35,241,990	35,241,990
Accrued interest and other expenses**	17	-	-	-	-	380,974,185	380,974,185
Other liabilities***	17	-	-	-	-	1,160,623,126	1,160,623,126
<b>Total Financial Liabilities</b>		<b>P63,147,488</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P32,828,000,954</b>	<b>P32,891,148,442</b>

\*Includes returned checks and other cash items and rent deposit

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

The following table shows the original measurement categories in accordance with PAS 39 and the new measurement categories under PFRS 9 for the Bank's financial assets and financial liabilities as at January 1, 2018:

	Note	Original Classification under PAS 39	New Classification under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
<b>Financial Assets</b>					
Cash and other cash items		Loans and receivables	Amortized cost	P452,374,266	P452,374,266
Due from BSP		Loans and receivables	Amortized cost	3,492,925,784	3,492,925,784
Due from other banks		Loans and receivables	Amortized cost	879,092,880	879,092,880
Interbank loans receivable - net <sup>(a)</sup>		Loans and receivables	Amortized cost	4,618,098,194	4,614,291,505
Investment securities - debt	7	FVTPL	FVTPL	416,129,671	416,129,671
Investment securities - debt	7	AFS	FVOCI	1,057,882,388	1,057,882,388
Investment securities - debt <sup>(b)</sup>	7	HTM	FVOCI	621,973,705	650,687,261
Investment securities - debt <sup>(b)</sup>	7	HTM	Amortized cost	488,321,986	488,321,986
Investment securities - equity	7	AFS	FVOCI	12,938,817	12,938,817
Loans and receivables - net <sup>(c)</sup>	8	Loans and receivables	Amortized cost	27,502,293,563	27,268,018,931
Other assets*		Loans and receivables	Amortized cost	36,225,264	36,225,264
<b>Total Financial Assets</b>				P39,578,256,518	P39,368,888,753
<b>Financial Liabilities</b>					
Deposit liabilities	13	Amortized cost	Amortized cost	P26,701,900,983	P26,701,900,983
Financial liabilities at FVTPL	27	FVTPL	FVTPL	63,147,488	63,147,488
Bills payable	14	Amortized cost	Amortized cost	4,284,822,838	4,284,822,838
Outstanding acceptances		Amortized cost	Amortized cost	264,437,832	264,437,832
Manager's checks		Amortized cost	Amortized cost	35,241,990	35,241,990
Accrued interest and other expenses**		Amortized cost	Amortized cost	380,974,185	380,974,185
Other liabilities*** <sup>(d)</sup>		Amortized cost	Amortized cost	1,160,623,126	1,163,792,791
<b>Total Financial Liabilities</b>				P32,891,148,442	P32,894,318,107

\*Includes returned checks and other cash items and rent deposit

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

The Bank's accounting policies on the classification of financial instruments under PFRS 9 are set out in Note 3. The application of these policies resulted in the reclassifications and remeasurements set out in the table above and explained below:

- In view of PFRS 9, the Bank calculated ECL on interbank loans receivable. On the date of initial application, ECL on interbank loans receivable was estimated at P3.8 million;
- Before the adoption of PFRS 9, certain debt securities totaling to P622.0 million were reclassified from the HTM investment category to financial assets at FVOCI due to the Bank's assessment that such securities were to be managed with an objective of collecting contractual payments and selling the instruments. On the adoption of PFRS 9, the investments were measured at their fair values totaling P650.7 million, resulting to an unrealized gain of P28.7 million recognized under "Net unrealized loss on financial assets at FVOCI" in the statements of OCI;
- The Bank estimated the amount of ECL on its loans and receivables at P234.3 million which was recognized as an adjustment in the loss allowance at the date of initial application; and
- Under the ECL model of the Bank, off-balance sheet commitments and contingents are also subject to ECL. At the date of initial application, ECL on these off-balance sheet items was P3.2 million which was recorded as additional provision under "Other liabilities" in the statements of financial position.



The following table reconciles the carrying amounts under PAS 39 to the carrying amounts under PFRS 9 on transition to PFRS 9 on January 1, 2018:

	Carrying Amount under PAS 39	Reclassifications	Remeasurements	Carrying Amount under PFRS 9
<b>Financial Assets</b>				
<i>Amortized Cost</i>				
Cash and other cash items	P452,374,266	P -	P -	P452,374,266
Due from BSP	3,492,925,784	-	-	3,492,925,784
Due from other banks	879,092,880	-	-	879,092,880
Interbank loans receivable - net	4,618,098,194	-	(3,806,689)	4,614,291,505
Investment securities	1,110,295,691	(621,973,705)	-	488,321,986
Loans and receivables - net	27,502,293,563	-	(234,274,632)	27,268,018,931
Other assets*	36,225,264	-	-	36,225,264
<b>Total Amortized Cost</b>	<b>38,091,305,642</b>	<b>(621,973,705)</b>	<b>(238,081,321)</b>	<b>37,231,250,616</b>
<i>FVOCI</i>				
Financial assets at FVOCI:				
Quoted debt securities	-	1,679,856,093	28,713,556	1,708,569,649
Quoted equity	-	498,000	-	498,000
Unquoted equity	-	12,440,817	-	12,440,817
<b>Total FVOCI</b>	<b>-</b>	<b>1,692,794,910</b>	<b>28,713,556</b>	<b>1,721,508,466</b>
<i>FVTPL</i>				
Financial assets at FVTPL				
Quoted debt	340,245,505	-	-	340,245,505
Derivative assets	75,884,166	-	-	75,884,166
<b>Total FVTPL</b>	<b>416,129,671</b>	<b>-</b>	<b>-</b>	<b>416,129,671</b>
<i>Available-for-Sale</i>				
AFS investments:				
Quoted debt securities	1,057,882,388	(1,057,882,388)	-	-
Quoted equity	498,000	(498,000)	-	-
Unquoted equity	12,440,817	(12,440,817)	-	-
<b>Total Available-for-Sale</b>	<b>1,070,821,205</b>	<b>(1,070,821,205)</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>				
<i>Amortized Cost</i>				
Deposit liabilities	26,701,900,983	-	-	26,701,900,983
Bills payable	4,284,822,838	-	-	4,284,822,838
Accrued interest and other expenses**	380,974,185	-	-	380,974,185
Outstanding acceptances	264,437,832	-	-	264,437,832
Manager's checks	35,241,990	-	-	35,241,990
Other liabilities***	1,160,623,126	-	3,169,665	1,163,792,791
<b>Total Amortized Cost</b>	<b>32,828,000,954</b>	<b>-</b>	<b>3,169,665</b>	<b>32,831,170,619</b>
<i>FVTPL</i>				
Derivative liabilities	63,147,488	-	-	63,147,488
<b>Total FVTPL</b>	<b>P63,147,488</b>	<b>P -</b>	<b>P -</b>	<b>P63,147,488</b>

\*Includes returned checks and other cash items and rent deposit

\*\*Excludes accrued taxes and other non-financial accruals

\*\*\*Excludes withholding taxes payable

The impact of the adoption of PFRS 9 to retained earnings, particularly the net remeasurement of loss allowances, as at January 1, 2018 is reconciled as follows:

	Remeasurement	Deferred Income Tax	Retained Earnings
Loans and receivables	P3,806,689	(P30,564)	P3,776,125
Interbank loans receivable	3,169,665	(950,899)	2,218,765
Off-balance sheet commitments and contingents	234,274,632	(63,930,227)	170,344,405
	<b>P241,250,986</b>	<b>P64,911,690</b>	<b>P176,339,295</b>

Deferred income tax pertains only to the deferred tax effect of the remeasurement of loss allowances under the RBU books for which the Bank recognizes DTA. As at January 1, 2018, unrecognized DTA arising from loss allowances under the FCDU books amounted to P7.46 million.

The reclassification of investment securities from the HTM category (measured at amortized cost) to financial assets at FVOCI did not affect the retained earnings as at January 1, 2019 since the remeasurement was recognized through OCI.

### 30. 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 2018 are as follows:

Gross receipt tax (GRT)	<b>P132,990,560</b>
Documentary stamp tax	<b>65,258,785</b>
Business licenses	<b>4,179,716</b>
Real property tax	<b>798,073</b>
Bank car registration	<b>258,303</b>
Annual registration fee	<b>13,000</b>
Community tax certificate	<b>10,500</b>
Business taxes	<b>3,200</b>
	<b>P203,512,137</b>

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 re-imposed in RA No. 9238 beginning January 1, 2004.

Details of the GRT remitted in 2018 are as follows:

	<b>Tax Base</b>	<b>Total Remittances</b>	<b>Balance</b>
Income subject to 5.0%	<b>P2,066,921,805</b>	<b>P92,969,248</b>	<b>P10,376,842</b>
Income subject to 1.0%	<b>9,349,350</b>	<b>86,866</b>	<b>6,628</b>
Other income subject to 7.0%	<b>422,156,799</b>	<b>25,575,998</b>	<b>3,974,978</b>
	<b>P2,498,427,954</b>	<b>P118,632,112</b>	<b>P14,358,448</b>

#### Documentary Stamp Tax

Movement in documentary stamp tax as follows:

	<b>Balance</b>
Documentary stamps on hand, December 31, 2017	<b>P4,161,970</b>
Purchases (BIR Form 2000)	<b>292,000,000</b>
Documentary stamps used	<b>(274,180,035)</b>
Documentary stamps on hand, December 31, 2018	<b>P21,981,935</b>

#### Withholding Taxes

Details of total remittances of withholding taxes in 2018 are as follows:

	<b>Total Remittances</b>	<b>Balance</b>
Withholding taxes on compensation and benefits	<b>P155,348,577</b>	<b>P16,477,908</b>
Final withholding tax on interest on deposits	<b>74,993,213</b>	<b>13,831,737</b>
Expanded withholding taxes	<b>21,785,936</b>	<b>1,687,123</b>
	<b>P252,127,726</b>	<b>P31,996,768</b>

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 May 25, 2018, the RTC rendered a decision declaring RR 4-11 as null and void. The case has been elevated to the Supreme Court.

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

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

**SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS)  
[WHICH CONSISTS OF PFRS, PHILIPPINE ACCOUNTING STANDARDS (PAS)  
AND PHILIPPINE INTERPRETATIONS]  
EFFECTIVE AS AT DECEMBER 31, 2018**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	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			✓
<b>PFRS 2</b>	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, 2018		Adopted	Not Adopted	Not Applicable
<b>PFRS 3 (Revised)</b>	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			✓
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation			✓
	Amendments to PFRS 3: Definition of a Business			✓
<b>PFRS 4</b>	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			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Annual Improvements to PFRSs 2012 -2014 Cycle: Changes in method for disposal	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	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			✓
<b>PFRS 8</b>	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 -2012 Cycle: Disclosures on the aggregation of operating segments	✓		
<b>PFRS 9</b>	Financial Instruments (2014)	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		✓*	

\* The Bank will adopt these new and/or amendments to standards on January 1, 2019.

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2018		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 10</b>	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			✓
<b>PFRS 11</b>	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			✓
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation			✓
<b>PFRS 12</b>	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			✓
<b>PFRS 13</b>	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	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers	✓		
<b>PFRS 16</b>	Leases		✓*	
<b>PFRS 17</b>	Insurance Contracts			✓

\* The Bank will adopt these new and/or amendments to standards on January 1, 2019.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	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	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material		✓**	
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material		✓**	
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PAS 12 - Income tax consequences of payments on financial instruments classified as equity	✓		
<b>PAS 16</b>	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			✓
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue			✓ <sup>A</sup>

<sup>A</sup> This standard is superseded by PFRS 15 as at January 1, 2018.

\*\* The Bank will adopt these new and/or amendments to standards on January 1, 2020.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
<b>PAS 19 (Amended)</b>	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			✓
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement			✓
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PAS 23 -Borrowing costs eligible for capitalization			✓
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 -2012 Cycle: Definition of 'related party'	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	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			✓
<b>PAS 28 (Amended)</b>	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			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	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			✓
<b>PAS 33</b>	Earnings per Share	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
<b>PAS 34</b>	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"			✓
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	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	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement			✓ <sup>B</sup>
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓ <sup>B</sup>
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓ <sup>B</sup>
	Amendments to PAS 39: The Fair Value Option			✓ <sup>B</sup>
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓ <sup>B</sup>
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓ <sup>B</sup>
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets -Effective Date and Transition			✓ <sup>B</sup>
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓ <sup>B</sup>
	Amendment to PAS 39: Eligible Hedged Items			✓ <sup>B</sup>
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓ <sup>B</sup>
<b>PAS 40</b>	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	✓		
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓

<sup>B</sup> This standard is superseded by PFRS 9 as at January 1, 2018.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 14</b>	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	✓		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration	✓		
<b>IFRIC 23</b>	Uncertainty over Income Tax Treatments		✓*	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓
<b>Philippine Interpretations Committee Questions and Answers</b>				
<b>PIC Q&amp;A 2006-01</b>	PAS 18, Appendix, paragraph 9 -Revenue recognition for sales of property units under pre-completion contracts			✓
<b>PIC Q&amp;A 2006-02</b>	PAS 27.10(d) -Clarification of criteria for exemption from presenting consolidated financial statements			✓
<b>PIC Q&amp;A 2007-02</b>	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates			✓

\* The Bank will adopt these new and/or amendments to standards on January 1, 2019.

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2018		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PIC Q&amp;A 2007-03</b>	PAS 40.27 -Valuation of bank real and other properties acquired (ROPA)	✓		
<b>PIC Q&amp;A 2008-01-Revised</b>	PAS 19.78 -Rate used in discounting post-employment benefit obligations	✓		
<b>PIC Q&amp;A 2009-01</b>	Framework.23 and PAS 1.23 -Financial statements prepared on a basis other than going concern			✓
<b>PIC Q&amp;A 2010-02</b>	PAS 1R.16 -Basis of preparation of financial statements	✓		
<b>PIC Q&amp;A 2010-03</b>	PAS 1 Presentation of Financial Statements -Current/non-current classification of a callable term loan			✓
<b>PIC Q&amp;A 2011-02</b>	PFRS 3.2 -Common Control Business Combinations			✓
<b>PIC Q&amp;A 2011-03</b>	Accounting for Inter-company Loans	✓		
<b>PIC Q&amp;A 2011-04</b>	PAS 32.37-38 -Costs of Public Offering of Shares	✓		
<b>PIC Q&amp;A 2011-05</b>	PFRS 1.D1-D8 -Fair Value or Revaluation as Deemed Cost	✓		
<b>PIC Q&amp;A 2011-06</b>	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property -Acquisition of Investment properties -asset acquisition or business combination?			✓
<b>PIC Q&amp;A 2012-01</b>	PFRS 3.2 -Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
<b>PIC Q&amp;A 2012-02</b>	Cost of a New Building Constructed on the Site of a Previous Building			✓
<b>PIC Q&amp;A 2013-02</b>	Conforming Changes to PIC Q&As - Cycle 2013	✓		
<b>PIC Q&amp;A 2013-03 (Revised)</b>	PAS 19 -Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓
<b>PIC Q&amp;A 2015-01</b>	Conforming Changes to PIC Q&As - Cycle 2015	✓		
<b>PIC Q&amp;A 2016-01</b>	Conforming Changes to PIC Q&As - Cycle 2016	✓		
<b>PIC Q&amp;A 2016-02</b>	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity	✓		
<b>PIC Q&amp;A 2016-03</b>	Accounting for Common Areas and the Related Subsequent Costs by Condominium Corporations			✓
<b>PIC Q&amp;A 2016-04</b>	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓
<b>PIC Q&amp;A 2017-01</b>	Conforming Changes to PIC Q&As - Cycle 2017			✓
<b>PIC Q&amp;A 2017-02</b>	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building	✓		
<b>PIC Q&amp;A 2017-03</b>	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2018		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PIC Q&amp;A 2017-04</b>	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
<b>PIC Q&amp;A 2017-05</b>	PFRS 7 -Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		
<b>PIC Q&amp;A 2017-06</b>	PAS 2, 16 and 40 -Accounting for Collector's Items			✓
<b>PIC Q&amp;A 2017-07</b>	PFRS 10 -Accounting for reciprocal holdings in associates and joint ventures			✓
<b>PIC Q&amp;A 2017-08</b>	PFRS 10 -Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
<b>PIC Q&amp;A 2017-09</b>	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	✓		
<b>PIC Q&amp;A 2017-10</b>	PAS 40 - Separation of property and classification as investment property	✓		
<b>PIC Q&amp;A 2017-11</b>	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			✓
<b>PIC Q&amp;A 2017-12</b>	Subsequent Treatment of Equity Component Arising from Intercompany Loans			✓
<b>PIC Q&amp;A 2018-01</b>	Voluntary changes in accounting policy	✓		
<b>PIC Q&amp;A 2018-02</b>	Non-controlling interests and goodwill impairment test			✓
<b>PIC Q&amp;A 2018-03</b>	Fair value of PPE and depreciated replacement cost			✓
<b>PIC Q&amp;A 2018-04</b>	Inability to measure fair value reliably for biological assets within the scope of PAS 41			✓
<b>PIC Q&amp;A 2018-05</b>	Maintenance requirement of an asset held under lease	✓		
<b>PIC Q&amp;A 2018-06</b>	Cost of investment in subsidiaries in SFS when pooling is applied			✓
<b>PIC Q&amp;A 2018-07</b>	Cost of an associate, joint venture, or subsidiary in separate financial statements			✓
<b>PIC Q&amp;A 2018-08</b>	Accounting for the acquisition of non-wholly owned subsidiary that is not a business			✓
<b>PIC Q&amp;A 2018-09</b>	Classification of deposits and progress payments as monetary or non-monetary items			✓
<b>PIC Q&amp;A 2018-10</b>	Scope of disclosure of inventory write-down			✓
<b>PIC Q&amp;A 2018-11</b>	Classification of land by real estate developer			✓
<b>PIC Q&amp;A 2018-12</b>	PFRS 15 implementation issues affecting the real estate industry			✓
<b>PIC Q&amp;A 2018-13</b>	Conforming Changes to PIC Q&As -Cycle 2018			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
<b>PIC Q&amp;A 2018-14</b>	PFRS 15 - Accounting for Cancellation of Real Estate Sales			✓
<b>PIC Q&amp;A 2018-15</b>	PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current			✓
<b>PIC Q&amp;A 2018-16</b>	PFRS 13 - Level of fair value hierarchy of government securities using Bloomberg's standard rule on fair value hierarchy	✓		
<b>PIC Q&amp;A 2019-01</b>	Accounting for service charges under PFRS 15, Revenue from Contracts with Customers			✓
<b>PIC Q&amp;A 2019-02</b>	Accounting for cryptographic assets			✓

**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.

**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, 2018**

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning <sup>1</sup>		<b>P -</b>
Net income during the year closed to retained earnings	P237,355,239	
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)	28,464,237	
Unrealized actuarial gain	-	
Fair value adjustment (marking to market gains)	2,728,319	
Deferred tax expense	(6,736,685)	
Fair value adjustment of Investment Property/AR- ICCS resulting in gain	21,438,217	
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	3,631,292	
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	187,829,860	
Add/Less:		
Dividend declaration during the period	-	
Appropriations of Retained Earnings during the period	-	
Trust operations	-	
Treasury shares <sup>1, 2</sup>	-	
Minimum capital requirements per BSP Circular No. 854, BASEL III requirements, and ICAAP <sup>1</sup>	(187,829,860)	
Reversal of appropriations	-	
Effects of prior period adjustments	-	
<b>Total retained earnings, available for dividend declaration<sup>1</sup>, ending</b>		<b>P -</b>

<sup>1</sup> - 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

<sup>2</sup> - 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, 2018**

*Liquidity Ratio*

The ratio for the years 2018 and 2017 are as follows:

	<b>2018</b>	2017
Net liquid assets	<b>P7,521,225,968</b>	P6,581,471,674
Total deposits	<b>36,361,391,250</b>	26,701,900,983
Ratio of net liquid assets to total deposits	<b>20.7%</b>	24.6%

Net liquid assets consist of cash, due from BSP, due from other 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 2018 and 2017 are as follows:

	<b>2018</b>	2017
Total liabilities	<b>P47,010,912,322</b>	P32,986,083,120
Total equity	<b>7,363,985,061</b>	7,340,189,331
Ratio of debt to equity	<b>638.4%</b>	449.4%

*Assets to Equity Ratio*

The ratio for the years 2018 and 2017 are as follows:

	<b>2018</b>	2017
Total assets	<b>P54,374,897,383</b>	P40,326,272,451
Total equity	<b>7,363,985,061</b>	7,340,189,331
Ratio of total assets to equity	<b>738.4%</b>	549.4%

*Interest Rate Coverage Ratio*

The ratio for the years 2018 and 2017 are as follows:

	<b>2018</b>	2017
Income before income tax	<b>P417,512,291</b>	P398,770,794
Interest expense	<b>615,258,433</b>	238,299,273
Interest coverage ratio	<b>67.9%</b>	167.3%



**SCHEDULE III***Profitability Ratios*

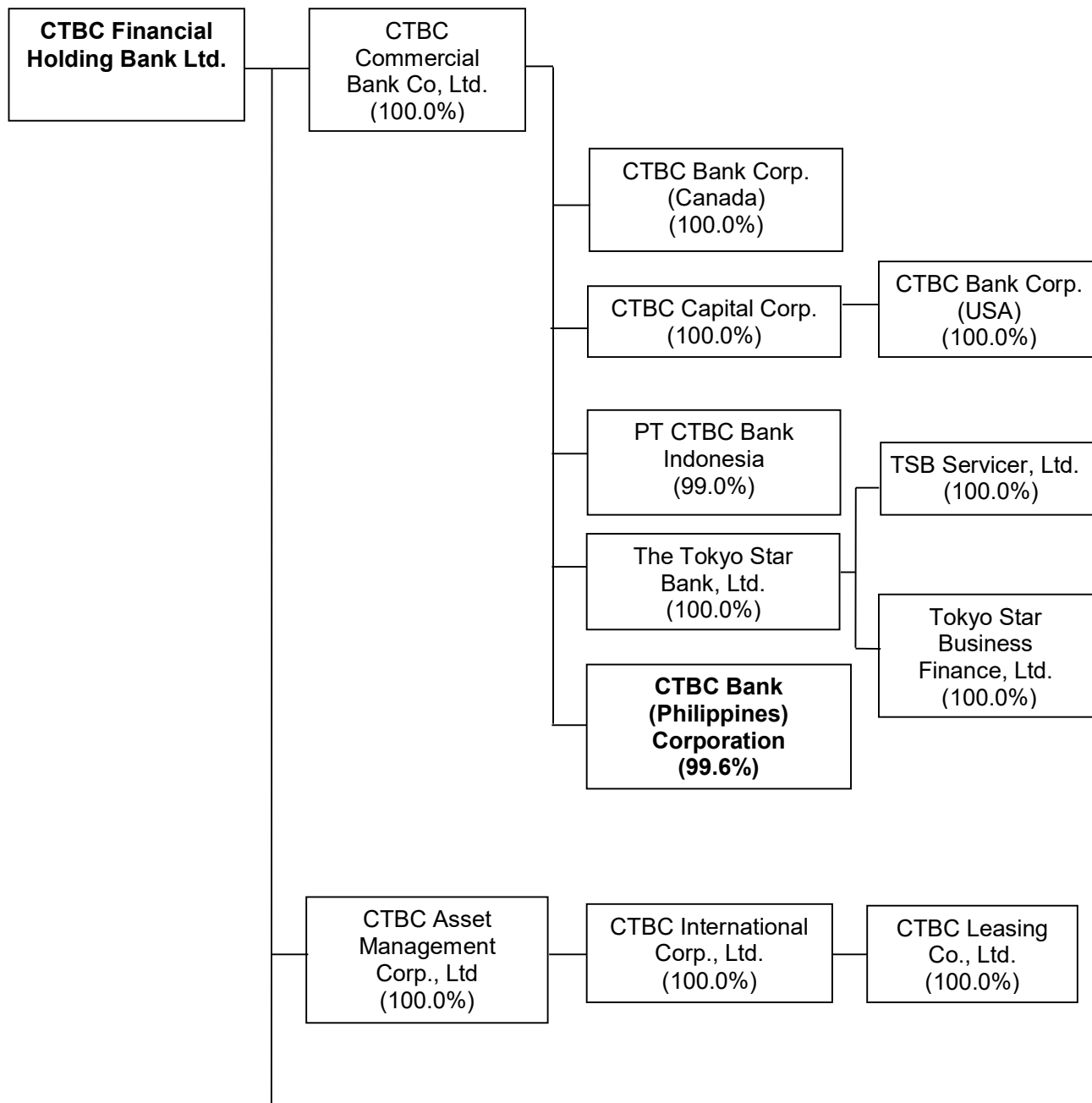
The ratio for the years 2018 and 2017 are as follows:

	<b>2018</b>	2017
a.) Net income	<b>P237,355,239</b>	P287,954,120
b.) Average total equity	<b>7,215,686,789</b>	7,279,470,459
Return on average equity (a/b)	<b>3.3%</b>	4.0%
c.) Net income	<b>P237,355,239</b>	P287,954,120
d.) Average total assets	<b>47,671,052,392</b>	37,982,896,841
Return on average assets (c/d)	<b>0.5%</b>	0.8%
e.) Net interest income	<b>P1,963,223,801</b>	P1,805,815,596
f.) Average interest earning assets	<b>45,648,452,999</b>	37,690,295,706
Net interest margin on average earning assets (e/f)	<b>4.3%</b>	4.8%

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

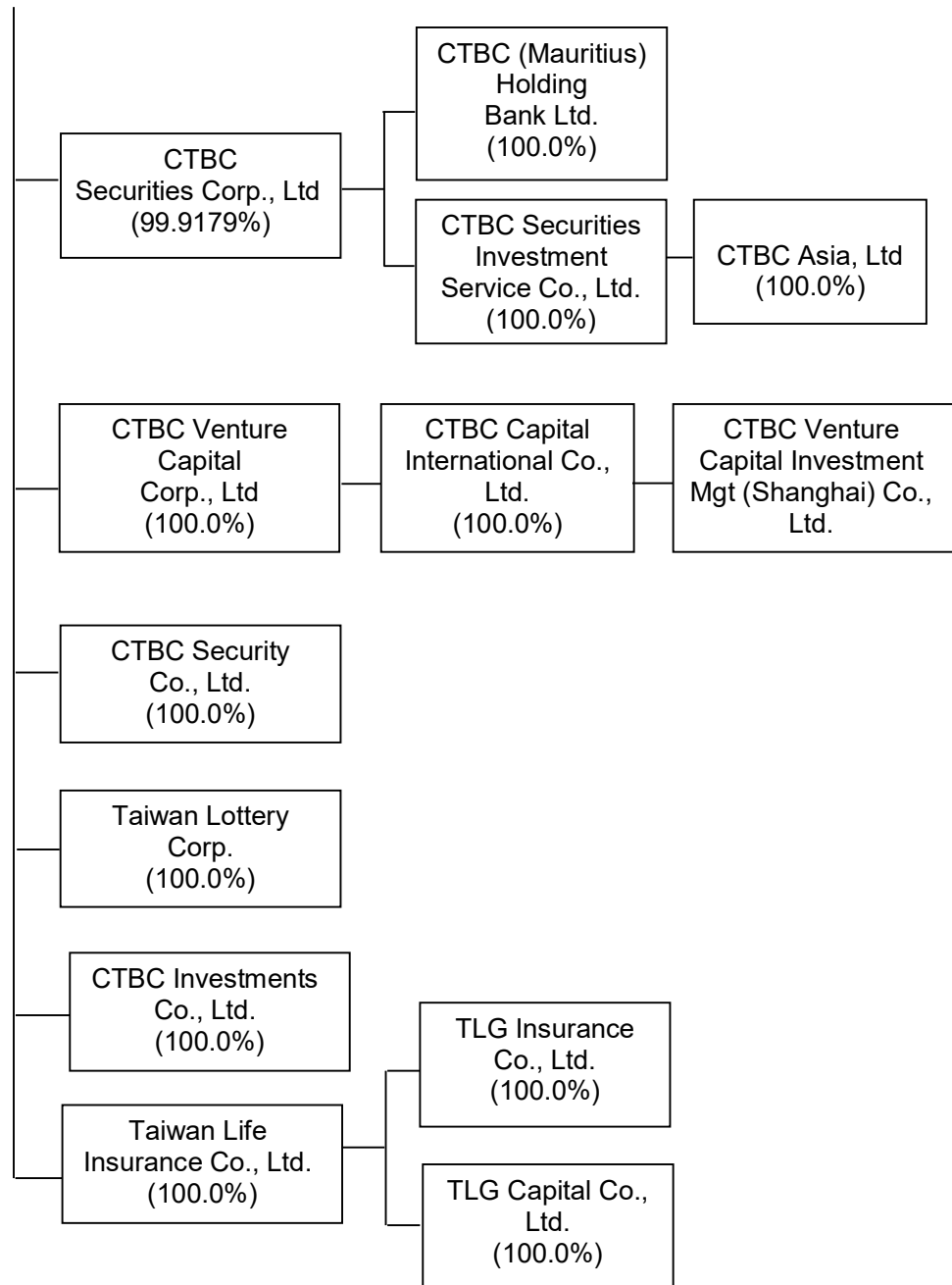
**RELATIONSHIP MAP**  
**DECEMBER 31, 2018**

Below is a map showing the relationship between and among the Group and its ultimate parent Bank, subsidiaries, and associates as of December 31, 2018



(Forward)

**SCHEDULE IV**



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

**SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED**  
**BY ANNEX 68-E**  
**DECEMBER 31, 2018**

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, 2018:

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
<b>Financial Assets at FVTPL</b>				
Quoted debt securities:				
Government (PHP)	n/a	P59,417,929	P59,417,929	P11,603,827
Government (USD)	n/a	-	-	2,994,202
Sub-total		59,417,929	59,417,929	14,598,029
Private (PHP)	n/a	-	-	-
Private (USD)	n/a	-	-	-
<b>Total</b>		<b>59,417,929</b>	<b>59,417,929</b>	<b>14,598,029</b>
Derivative assets	n/a	67,944,513	67,944,513	-
		<b>P127,362,442</b>	<b>P127,362,442</b>	<b>P14,598,029</b>
<b>Financial Assets at FVOCI</b>				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P -	P -	P -
Philippine Government (USD)	n/a	2,399,898,231	2,399,898,231	80,611,774
<b>Total</b>		<b>2,399,898,231</b>	<b>2,399,898,231</b>	<b>80,611,774</b>
Unquoted equity securities:				
BANCNET	50,000	6,940,717	6,940,717	-
PCHC	21,000	5,000,100	5,000,100	-
BAP	5,000	500,000	500,000	-
<b>Total</b>		<b>12,440,817</b>	<b>12,440,817</b>	
Club shares accounted as FVOCI equity investments:				
Orchard Gold and Country Club	1	600,000	600,000	-
Subic Bay Yacht Club Corporation	1	280,000	280,000	-
<b>Total</b>		<b>880,000</b>	<b>880,000</b>	-
		<b>P2,413,219,048</b>	<b>P2,413,219,048</b>	<b>P80,611,774</b>
<b>Investment Securities at Amortized Cost</b>				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P119,458,365	P116,118,016	P5,374,580
Philippine Government (USD)	n/a	2,671,061,042	2,656,611,184	60,056,282
<b>Total</b>	n/a	<b>P2,790,519,407</b>	<b>P2,772,729,200</b>	<b>P65,430,862</b>

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

Name of Debtor	Beginning Balance	Additions	Collections	Ending Balance
Employee Loans/Total	P23,986,184	P12,545,469	(P13,807,035)	P22,724,618

**Capital Stock**

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

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

**SCHEDULE VI**

**SCHEDULE VI: Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements.**

Name and Designation of Debtor	Balance at Beginning Period	Additions	Amounts Collected	Amounts Written Off	Current	Noncurrent	Balance at End of Period
None to report							

## SCHEDULE VII

### 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):

	2018					
	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Statements of Financial Position	Net Amounts of Financial Assets Presented in the Statements of Financial Position	Related Amounts not Offset in the Statements of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
<b>Financial Assets</b>						
Derivatives-trading assets	P68	P -	P68	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements	-	-	-	-	-	-
Loans and receivables	-	-	-	3,293	3,293	-
<b>Total</b>	<b>P68</b>	<b>P -</b>	<b>P68</b>	<b>P3,293</b>	<b>P3,293</b>	<b>P -</b>
<b>Financial Liabilities</b>						
Derivatives-trading liabilities	P25	P -	P25	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
<b>Total</b>	<b>P25</b>	<b>P -</b>	<b>P25</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>

## SCHEDULE VII

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

The gross amounts of recognized financial assets and financial liabilities and their net amounts as presented in the statements of financial position are on the following basis:

- Derivative assets and liabilities - fair value;
- Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing - amortized cost;
- Loans and advances to customers - amortized cost; and
- Customer deposits - amortized cost.

The amounts that are offset in the statements of financial position are measured on the same basis.



## SCHEDULE VII

The tables below reconcile the 'net amounts of financial assets and financial liabilities presented in the statements of financial position,' as set out above, to the line items presented in the statements of financial position are as follows (in millions):

2018					
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	<b>P68</b>	<b>Financial assets at FVTPL</b>	P -	P -
Derivatives held for risk management		-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements		-	-	-	-
Loans and receivables		-	<b>Loans and receivables - net</b>	-	-
<b>Financial Liabilities</b>					
Derivative-trading liabilities		<b>25</b>	<b>Financial liabilities at FVTPL - net</b>	-	-
Sale and repurchase securities lending and similar agreements		-	-	-	-
Derivatives held for risk management		-	-	-	-
Customer deposits		-	-	-	-
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 FVTPL	P -	P -
Derivatives held for risk management		-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements		-	-	-	-
Loans and receivables		-	<b>Loans and receivables - net</b>	-	-
<b>Financial Liabilities</b>					
Derivative-trading liabilities		63	Financial liabilities at FVTPL - net	-	-
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, 2019  
&  
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,  
31<sup>st</sup> St. corner 3<sup>rd</sup> Avenue, Bonifacio Global City, Taguig City  
(Company's Full Name)

**988-9287**  
\_\_\_\_\_  
(Telephone Number)

**2019 December 31**  
\_\_\_\_\_  
(Fiscal Year Ending)  
(Month & Day)

**SEC FORM 17-Q**  
**Quarterly Report**  
\_\_\_\_\_  
Form Type

\_\_\_\_\_  
Amendment Designation  
(If Applicable)

**March 31, 2019**  
\_\_\_\_\_  
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, 2019
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, 1634  
31st St. corner 3rd Avenue, Bonifacio Global City, Taguig City
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

<u>Title of each Class</u>		<u>Number of shares common stock outstanding and amount of debt outstanding</u>
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**

Total resources of the Bank declined to P52.0 billion as of March 31, 2019 compared with 2018 year-end level of P54.4 billion. These were mainly attributed to Interbank Loan Receivable – net, which dropped by 60% to P2.4 billion from P6.1 billion last December 2018. Due from Bangko Sentral ng Pilipinas (BSP) also went down by P743 million, from P5.0 billion to P4.3 billion. On the other hand, Loans and receivables – net increased by P1.6 billion to P36.8 billion on account of higher Treasury's settlement receivables. Also, Financial Assets at Fair Value through Profit or Loss grew by P918.7 million, 721% higher from P127.4 million as of December last year. Total liabilities decreased by P2.6 billion to P44.4 billion mainly on account of lower Bills Payable as of March 2019.

Net interest income increased by 17.5% to P531.2 million from P452.2 million in the same period last year, on the back of stable performance of loans and receivables. In addition, total trading gains grew by 410% to P88 million and Miscellaneous Income - net went up by 129% to P51 million. However, despite the Bank's increase in operating income, the net income after tax posted P77.5 million, 26.4% lower compared to the same period last year. This is due to Bank's Provision for impairment and credit losses that rose by 907.1% or P153.3 million. The result of operations translated to an ROE and ROA of 4.24% and 0.59%, respectively.

Non-performing loans (NPL) ratio rose to 1.64% from 1.36%, while NPL coverage improved to 117% from 110% as of end of last year. The Bank's capital adequacy ratio (CAR) is at 16.45% as of March 31, 2019.

## Key Financial Indicators

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

	March 31, 2019	March 31, 2018
Return on Average Equity (ROE)	4.24%	5.93%
Return on Average Assets (ROA)	0.59%	1.69%
Cost-to-Income Ratio	67.28%	72.68%

	March 31, 2019	December 31, 2018
Non-Performing Loan Ratio (NPL)	1.64%	1.36%
Non Performing Loan Cover	117%	110%
Capital Adequacy Ratio	16.45%	16.33%

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 2019 and end-of-year 2018 were as follows:

	<b>March 2019</b>	December 2018
Net liquid assets	<b>₱ 7,281,811,786</b>	₱ 7,521,225,968
Total deposits	<b>36,949,963,076</b>	36,361,391,250
Ratio of net liquid assets to total deposits	<b>20%</b>	21%

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 2019 and end-of-year 2018 were as follows:

	<b>March 2019</b>	December 2018
Total liabilities	<b>₱ 44,419,495,510</b>	₱ 47,010,912,322
Total equity	<b>7,554,524,666</b>	7,363,985,061
Ratio of debt to equity	<b>588%</b>	638%

### *Assets-to-equity ratio*

The ratios for March 2019 and end-of-year 2018 were as follows:

	<b>March 2019</b>	December 2018
Total assets	<b>₱ 51,974,020,176</b>	₱ 54,374,897,383
Total equity	<b>7,554,524,666</b>	7,363,985,061
Ratio of total assets to equity	<b>688%</b>	738%

### *Interest coverage ratio*

The ratios for March 2019 and end-of-year 2018 were as follows:

	<b>March 2019</b>	December 2018
Income before income tax	<b>₱ 114,823,884</b>	₱ 417,512,292
Interest expense	<b>262,932,775</b>	615,258,434
Interest coverage ratio	<b>44%</b>	68%

**Additional Management Discussion and Analysis (for those with variances of more than 5% March 31, 2019 vs. December 31, 2018)**

**Balance Sheet –**

Cash and Other Cash Items decreased by 26% from P505 million to P376 million mainly due to lower levels foreign currency notes ending in the first quarter of 2019. In addition, Due from BSP and Due from other banks also decreased by P743 million and P403 million, respectively. Interbank loans receivable dropped by 60%, from P6.14 billion to P2.45 billion as of March 2019.

Financial Assets at Fair Value through Profit or Loss heightened to P1.05 billion from P127 million, or a 721% increase from end of last year. Loans and receivables – net also increased by P1.7 billion to P36.8 billion on account of higher Treasury settlement receivables. Conversely, Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) decreased by 8%, from P2.41 billion to P2.23 billion.

Property and Equipment - net increased by 145%, from P114 million to P280 million, attributable to the recognition of Right-of-Use asset under PFRS 16. Deferred Income Tax (DIT) also went up to P224 million from P201 million due to additional DIT booked on impaired accounts. On the other hand, other assets - net decreased to P410 million from P443 million last December 2018.

Financial Liabilities at Fair Value through Profit or Loss increased by 16% to P29.4 million while Bills payable declined to 3.91 billion from P7.91 billion at the end of 2018. The decrease is due to lower foreign currency interbank borrowings. Moreover, Outstanding Acceptances and Accrued Interest, Taxes and Other Expenses went down by P123 million and P37 million, respectively. Meanwhile, Income Tax Payable increased by 197% to P74 million and Other Liabilities went up by 47% to P2.89 billion, mainly attributable to higher settlement payables. Net Unrealized Gain on Financial Assets at FVOCI also recorded an increase of P114 million by March 2019.

## **Income Statement (variance analysis for March 31, 2019 vs. March 31, 2018)**

The bank posted a significant growth of P245 million or 45% on interest income versus same period last year. This is attributable to interest income from Loans and Receivables that contributed P197 million to the increase. Interest income from Interbank loans receivable also went up by 225%, from P11 million to P37 million. Likewise, interest income on trading and investment securities increased by P26 million to P58 million same period last year. On the other hand, due to lower average volume, interest income on deposits with other banks went down by 30%.

Interest expense on deposit liabilities rose by P140 million on account of higher average volume of high cost deposits as compared last year. Likewise, Interest expense on bills payable went up by P23 million to P45 million on account of higher average volume of foreign currency borrowings.

Total operating income grew by 31% attributable to Trading and securities gain - net and Miscellaneous Income – net, which increased by P71 million and P29 million, respectively. The increase in Miscellaneous Income - net is mainly from the sale of cash cards.

As of March 31, 2019, the Bank booked a total of P136 million in provision for impairment and credit losses. Increase in various operating expense lines were noted as compared to the same period last year. Compensation and fringe benefits increased by P25 million, Security, Messengerial, and Janitorial expenses by P5 million, and amortization of software license by P2 million. Depreciation and amortization also went up by 148% mainly due to the Right-of-Use asset being depreciated beginning January of this year. Taxes, licenses and documentary stamps used increased from P44 million to P67 million. The increase in Miscellaneous expenses amounting to P30 million were related to the cost of cash cards, VISA expenses and PDIC. On the other hand, Provision for income tax dropped to P37 million from P72 million as of the same period last year, due to lower taxable income for the period.

**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.


**PART II – OTHER INFORMATION**

(none)

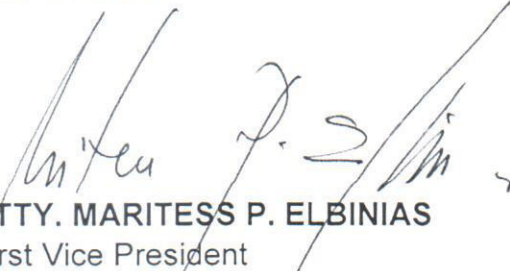
**SIGNATURES**

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

Date **May 10, 2019**

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

Date **May 10, 2019**

## Notes to Financial Statements Required Under SRC Rule 68.1

1. Diluted Earnings per share as of March 31, 2019 is P0.31.
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, 2019 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, 2019 amounted to P87.8 million, compared to P17.2 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, 2019 and 2018 are as follows:

	TREASURY GROUP		CORPORATE BANKING		RETAIL BANKING		OTHERS		TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Results of operations</b>										
<b>(in thousands)</b>										
Net interest income	16,430	30,592	153,097	119,848	361,743	301,812	(45)	(37)	531,226	452,215
Non-interest income	122,930	52,331	19,780	10,272	91,948	71,312	1,922	2,235	236,580	136,150
Total revenue	139,360	82,923	172,877	130,120	453,691	373,124	1,878	2,199	767,806	588,365
Non-interest expense	36,702	27,637	133,737	41,827	292,812	153,789	189,731	187,495	652,982	410,748
Income (loss) before income tax	102,658	55,285	39,140	88,293	160,880	219,335	(187,853)	(185,296)	114,824	177,617
Income tax provision (benefit)	43,790	43,258	1,764	11,666	(8,302)	17,292	23	38	37,275	72,255
<b>Net income (loss)</b>	<b>58,868</b>	<b>12,027</b>	<b>37,376</b>	<b>76,627</b>	<b>169,181</b>	<b>202,043</b>	<b>(187,876)</b>	<b>(185,334)</b>	<b>77,549</b>	<b>105,363</b>
<b>YTD Average (in Php millions)</b>										
Total assets	7,188	2,205	32,438	6,453	12,234	3,416	387	3,419	52,247	15,493
Total liabilities	5,366	696	22,138	4,194	16,798	4,836	558	2,278	44,860	12,005

- 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 25 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, 2019, the Bank's total unimpaired capital amount to P7.1 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:

	<b>As of March 31, 2019</b>	<b>As of December 31, 2018</b>
Trust department		
Investment management accounts	Php1,016,789,492	Php889,816,598
Trust and other fiduciary accounts	504,015,113	543,842,821
	<u>1,520,804,605</u>	<u>1,433,659,419</u>
Forward exchange bought	7,411,530,000	6,545,470,000
Forward exchange sold	7,156,961,000	6,307,171,000
Spot exchange bought	2,579,255,577	1,348,081,301
Spot exchange sold	2,630,151,284	1,377,277,831
Inward Bills for collection	822,859,487	1,141,728,487
Unused commercial letters of credit	2,770,344,519	3,296,366,336
Others	439,630,059	17,175,022
	<u>Php25,331,536,531</u>	<u>Php21,466,929,397</u>

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 adopted PFRS 9 starting January 1, 2018 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 reduction in Retained Earnings as a result of the additional allowance for credit losses



amounted 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) 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 has performed an initial assessment of the potential impact of PFRS 16 on its financial statements. The Bank will recognize new assets and liabilities for its operating leases. The nature of the expense related to these leases will change because PFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use (ROU) assets and interest expense on lease liabilities.

Under PAS 17, the Bank recognizes operating lease expenses on a straight-line basis over the term of the lease and recognizes assets and liabilities only to the extent that there is a timing difference between actual lease payments and the expense recognized.

The Bank applied the modified retrospective approach as its transition option in applying PFRS 16. The Bank measured, on a lease-by-lease basis, the ROU asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statements of financial position. Based on the assessment, the Bank initially booked ROU asset and lease liability amounting to P193.1 million.

- 17) 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 exchange 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 accordance with its business model: financial assets at FVPL, Investment Securities at Amortized Cost (AC), financial assets at FVOCI, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost.

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, 2019  
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	3,236	3,236	0
<b>Total</b>	<b>61</b>	<b>0</b>	<b>61</b>	<b>3,236</b>	<b>3,236</b>	<b>0</b>

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

As of March 31, 2019  
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	Cash Collateral received	Net amount
Derivatives-trading liabilities	29	0	29	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
<b>Total</b>	<b>29</b>	<b>0</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

As of December 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	68	0	68	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	3,293	3,293	0
<b>Total</b>	<b>68</b>	<b>0</b>	<b>68</b>	<b>3,293</b>	<b>3,293</b>	<b>0</b>

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

As of December 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	Cash Collateral received	Net amount
Derivatives-trading liabilities	25	0	25	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
<b>Total</b>	<b>25</b>	<b>0</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>0</b>

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, 2019  
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, 2019  
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	29	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, 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	68	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, 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	25	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**  
**STATEMENTS OF CONDITION**

(With Comparative Figures for December 31, 2018)  
(in Php)

	March 31, 2019	December 31, 2018
	(Unaudited)	(Audited)
<b>RESOURCES</b>		
Cash and Other Cash Items	376,154,304	504,999,873
Due from Bangko Sentral ng Pilipinas (BSP)	4,258,773,422	5,001,859,955
Due from Other Banks	863,271,180	1,266,759,792
Interbank Loans Receivable - net	2,447,177,828	6,142,778,572
Financial Assets at Fair Value through Profit or Loss (FVTPL)	1,046,023,377	127,362,442
Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)	2,230,517,839	2,413,219,048
Investment Securities at Amortized Cost (AC)	2,821,404,124	2,790,519,408
Loans and Receivables - net	36,846,511,015	35,197,027,258
Property and Equipment - net	279,630,508	113,972,195
Investment Properties - net	171,003,547	172,218,735
Deferred Income Tax - net	223,592,680	200,953,992
Other Assets	409,960,352	443,226,113
	<b>51,974,020,176</b>	<b>54,374,897,383</b>
<b>LIABILITIES AND CAPITAL FUNDS</b>		
<b>Liabilities</b>		
<b>Deposit Liabilities</b>		
Demand	7,357,342,038	7,646,599,849
Savings	8,147,280,568	7,597,339,059
Time	21,445,340,470	21,117,452,342
	36,949,963,076	36,361,391,250
Financial Liabilities at FVTPL	29,415,470	25,452,851
Bills Payable	3,910,690,694	7,910,300,863
Outstanding Acceptances	71,756,064	194,467,418
Manager's Checks	83,725,787	80,275,446
Accrued Interest, Taxes and Other Expenses	408,901,526	446,136,646
Income Tax Payable	74,143,949	24,999,134
Other Liabilities	2,890,898,944	1,967,888,714
	44,419,495,510	47,010,912,322
<b>Capital Funds</b>		
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	5,018,976,629	4,941,428,129
Statutory Reserve	4,981,159	4,981,159
Cumulative Translation Adjustment	8,135,916	8,793,915
Net Unrealized Gain (Loss) on Financial Assets at FVOCI	19,556,063	(94,093,041)
Net Unrealized Gain (Loss) on Retirement Liability	(14,374,412)	(14,374,412)
	7,554,524,666	7,363,985,061
	<b>51,974,020,176</b>	<b>54,374,897,383</b>

CTBC BANK (PHILIPPINES) CORPORATION  
**STATEMENTS OF INCOME**  
(With Comparative Figures for three months ended March 31, 2018)  
(in Php)

	January to March	
	2019	2018
<b>INTEREST INCOME</b>		
Loans and receivables	691,467,702	494,545,546
Interbank loans receivable	36,710,800	11,290,151
Trading and investment securities	57,866,811	32,144,390
Deposits with other banks and others	8,113,432	11,520,605
	794,158,745	549,500,692
<b>INTEREST EXPENSE</b>		
Deposit liabilities	215,302,224	74,975,201
Bills payable and other borrowings	45,354,658	22,310,306
Lease liabilities	2,275,893	-
	262,932,775	97,285,507
<b>NET INTEREST INCOME</b>	<b>531,225,970</b>	<b>452,215,185</b>
Service charges, handling fees and commission income	58,148,787	57,404,679
Trading and securities gain - net	87,758,289	17,220,428
Foreign exchange gain - net	39,481,359	39,188,634
Miscellaneous - net	51,191,310	22,336,014
<b>TOTAL OPERATING INCOME</b>	<b>767,805,715</b>	<b>588,364,940</b>
Compensation and fringe benefits	250,403,136	224,991,073
Provision for (recovery from) impairment and credit losses	136,390,860	(16,899,508)
Occupancy and other equipment-related costs	35,564,353	54,158,589
Taxes, licenses and documentary stamps used	66,691,029	43,680,188
Security, messengerial and janitorial expenses	38,987,216	33,908,128
Depreciation and amortization	37,687,321	15,197,102
Amortization of software license	10,033,050	8,397,236
Miscellaneous	77,224,863	47,314,722
<b>TOTAL OPERATING EXPENSES</b>	<b>652,981,828</b>	<b>410,747,530</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>114,823,884</b>	<b>177,617,410</b>
<b>PROVISION FOR INCOME TAX</b>	<b>37,275,384</b>	<b>72,254,600</b>
<b>NET INCOME</b>	<b>77,548,500</b>	<b>105,362,810</b>
Basic/Diluted Earnings Per Share *	0.31	0.42

CTBC BANK (PHILIPPINES) CORPORATION  
 STATEMENTS OF COMPREHENSIVE INCOME  
 (With Comparative Figures for three months ended March 31, 2018)  
 (in Php)

	January to March	
	2019	2018
NET INCOME	77,548,500	105,362,810
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items that may not be reclassified to profit or loss</i>		
Net remeasurement gain (loss) on retirement liability - net of tax		
<i>Items that may be reclassified to profit or loss</i>		
Net unrealized gain (loss) on financial assets at FVOCI	113,649,104	(56,938,135)
Cumulative Translation Adjustment	(657,999)	(7,456,315)
	112,991,105	(64,394,450)
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX	190,539,605	40,968,360

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 (Loss) on Financial Assets at FVOCI	Net Unrealized Gain (Loss) on AFS Investments	Remeasurement Gain (Loss) on Retirement Asset/Liability	Total
<b>Balance at December 31, 2018</b>	2,479,687,310	(15,951,674)	53,513,675	4,941,428,129	4,981,159	8,793,915	(94,093,041)	-	(14,374,412)	7,363,985,061
Net income for the year	-	-	-	77,548,500	-	-	-	-	-	77,548,500
<b>Other Comprehensive Income for the Year</b>	-	-	-	-	-	(657,999)	113,649,104	-	-	(657,999)
Items that may not be reclassified to profit or loss:	-	-	-	-	-	-	-	-	-	113,649,104
Net-remeasurement gain-(loss) on-retirement asset	-	-	-	-	-	(657,999)	-	-	-	(657,999)
Items that may be reclassified to profit or loss:	-	-	-	-	-	-	-	-	-	113,649,104
Cumulative Translation Adjustments	-	-	-	-	-	(657,999)	-	-	-	(657,999)
Net unrealized gain on financial assets at FVOCI	-	-	-	-	-	-	113,649,104	-	-	113,649,104
<b>Total Comprehensive Income for the year</b>	-	-	-	77,548,500	-	(657,999)	113,649,104	-	-	190,539,605
<b>Balance at March 31, 2019</b>	2,479,687,310	(15,951,674)	53,513,675	5,018,976,629	4,981,159	8,135,916	19,556,063	-	(14,374,412)	7,554,524,666
<b>Balance at December 31, 2017</b>	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
Adjustment on initial application of PFRS 9, net of tax	-	-	-	(176,339,296)	-	-	-	-	-	(176,339,296)
<b>Restated balance at January 1, 2018</b>	2,479,687,310	(15,951,674)	53,513,675	4,704,072,889	4,981,159	8,460,828	13,207,397	15,506,159	(55,407,993)	7,192,563,592
Net income for the year	-	-	-	105,362,810	-	-	-	-	-	105,362,810
<b>Other Comprehensive Income for the Year</b>	-	-	-	-	-	(7,456,315)	(85,651,691)	-	-	(93,107,906)
Items that may not be reclassified to profit or loss:	-	-	-	-	-	-	-	-	-	-
Net re-measurement gain (loss) on retirement liability	-	-	-	-	-	(7,456,315)	-	-	-	(7,456,315)
Items that may be reclassified to profit or loss:	-	-	-	-	-	-	-	-	-	(85,651,691)
Cumulative Translation Adjustments	-	-	-	-	-	(7,456,315)	-	-	-	(7,456,315)
Net unrealized loss on financial assets at FVOCI	-	-	-	-	-	-	(85,651,691)	-	-	(85,651,691)
<b>Total Comprehensive Income for the year</b>	-	-	-	105,362,810	-	(7,456,315)	(85,651,691)	-	-	12,254,805
<b>Balance at March 31, 2013</b>	2,479,687,310	(15,951,674)	53,513,675	4,805,435,700	4,981,159	1,004,513	(72,444,294)	-	(55,407,993)	7,204,818,396
<b>Balance at December 31, 2017</b>	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
Adjustment on initial application of PFRS 9, net of tax	-	-	-	(176,339,296)	-	-	-	-	-	(176,339,296)
<b>Restated balance at January 1, 2018</b>	2,479,687,310	(15,951,674)	53,513,675	4,704,072,889	4,981,159	8,460,828	13,207,397	15,506,159	(55,407,993)	7,192,563,592
Net income for the year	-	-	-	237,355,239	-	-	-	-	-	237,355,239
<b>Other Comprehensive Income for the Year</b>	-	-	-	-	-	333,087	(107,300,438)	-	-	(73,919,351)
Items that may not be reclassified to profit or loss:	-	-	-	-	-	-	-	-	-	-
Net re-measurement gain (loss) on retirement asset	-	-	-	-	-	333,087	-	-	41,033,581	41,033,581
Items that may be reclassified to profit or loss:	-	-	-	-	-	-	-	-	-	333,087
Cumulative Translation Adjustments	-	-	-	-	-	333,087	-	-	-	333,087
Net unrealized loss on financial assets at FVOCI	-	-	-	-	-	-	(107,300,438)	-	-	(107,300,438)
<b>Total Comprehensive Income for the year</b>	-	-	-	237,355,239	-	333,087	(107,300,438)	-	41,033,581	171,421,469
<b>Balance at December 31, 2018</b>	2,479,687,310	(15,951,674)	53,513,675	4,941,428,129	4,981,159	8,793,915	94,093,041	-	(14,374,412)	7,363,985,061

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

For the three months ended March 31

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	114,823,884	177,617,410
Adjustments for:		
Provision for (recovery from) impairment and credit losses	136,390,860	(16,899,508)
Depreciation and amortization	37,687,321	15,197,102
Amortization of computer software	10,033,050	8,397,236
Amortization of deferred charges	-	495
(Gain) / loss on sale of property and equipment	11	308
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit and loss	(918,660,935)	333,796,836
Loans and Receivables	(1,785,874,617)	(460,097,171)
Other assets	23,232,711	(98,797,432)
Increase (decrease) in:		
Deposit liabilities	588,571,826	2,854,475,206
Manager's checks	3,450,341	42,496,961
Accrued interest and other expenses	(37,235,120)	(60,301,763)
Other liabilities	926,972,849	111,327,274
Net cash generated from (used in) operations	(900,607,819)	2,907,212,952
Income taxes paid	(10,769,257)	(5,177,775)
Net cash provided by (used in) operating activities	(911,377,076)	2,902,035,178
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in:		
Financial assets at fair value through Other Comprehensive Income (OCI)	295,692,314	(1,694,551,979)
Investment in bonds and other debt instruments	(30,884,716)	(135,169,607)
Investment in an associate		
Additions to property and equipment	(201,659,503)	(3,716,876)
Proceeds from disposals of property and equipment	(425,278)	1,702,398
Additions to investment properties	(45,676)	(2,904,180)
Net cash provided by (used in) investing activities	62,677,141	(1,834,640,243)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in:		
Bills payable	(3,999,610,169)	(2,826,679,606)
Outstanding Acceptances	(122,711,354)	617,409,928
Net cash provided by (used in) financing activities	(4,122,321,523)	(2,209,269,678)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4,971,021,458)</b>	<b>(1,141,874,743)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and other cash items	504,999,873	452,374,266
Due from Bangko Sentral ng Pilipinas	5,001,859,955	3,492,925,784
Due from other banks	1,266,759,792	879,092,880
Interbank loans receivable	6,142,778,572	4,618,098,194
Total	12,916,398,192	9,442,491,124
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR PER CASH FLOWS</b>	<b>7,945,376,734</b>	<b>8,300,616,381</b>
<b>CASH AND CASH EQUIVALENTS, END</b>		
Cash and other cash items	376,154,304	380,909,779
Due from Bangko Sentral ng Pilipinas	4,258,773,422	3,142,908,299
Due from other banks	863,271,180	627,140,606
Interbank loans receivable	2,447,177,828	4,149,657,697
Total	7,945,376,734	8,300,616,381
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>		
Interest received	843,799,970	564,969,762
Interest paid	(258,589,210)	(97,033,708)
	585,210,761	467,936,054

CTBC BANK (PHILIPPINES) CORPORATION Aging of Loans and Receivables As of March 31, 2019		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 Liquidation
<b>a) Trade Receivables</b>										
1) DTRP	1,010,359,006	369,138,613	193,619,151	295,723,974	290,617,810	32,595,000	14,507,906	68,129,047	-	119,782,237
2) IBTR- PESO	2,154,425,113	618,797,505	1,193,896,276	290,617,810	290,617,810	51,123,523	407,647,735	221,986,701	-	-
3) IBTR- USD	-	-	-	-	-	-	5,388,681	-	-	-
4) CLA	71,756,064	35,067,764	21,310,800	17,377,500	17,377,500	-	-	222,623,309	-	-
Subtotal	3,236,540,184	1,021,003,912	1,408,816,228	603,219,283	603,219,283	83,718,523	716,528,993	330,693,306	-	119,782,237
Less: Allow. For Doubtful Acct	57,248,316	1,021,003,912	1,408,816,228	603,219,283	603,219,283	83,718,523	716,528,993	330,693,306	-	119,782,237
Net Trade Receivable	3,179,291,867	1,021,003,912	1,408,816,228	603,219,283	603,219,283	83,718,523	716,528,993	330,693,306	-	119,782,237
<b>b) Non - Trade Receivables</b>										
1) BILLS DISCOUNTED - REG - HO DEP	165,583,295	29,487,650	36,766,667	4,982,024	4,982,024	11,720,000	14,507,906	68,129,047	-	-
2) BILLS DISCOUNTED - REG - RMC/MOT	825,122,504	25,672,999	63,906,327	48,706,706	48,706,706	83,375,035	407,647,735	221,986,701	-	-
3) BILLS DISCOUNTED - CHK DISC - CLEAN	213,423,490	2,548,653,841	1,248,535,240	929,056,788	929,056,788	1,244,226,346	5,388,681	-	-	-
4) TIME LOAN - ST - CLEAN	5,970,492,225	371,107,359	594,222,749	797,463,300	797,463,300	1,330,846,941	1,189,441,009	222,623,309	-	-
5) TIME LOAN - SALARY LOAN	4,505,725,667	1,500,000,000	50,000,000	21,889,875	21,889,875	8,406,768	-	-	-	-
6) TIME LOAN - ST - HOLD-OUT DEP	1,580,000,000	18,450,000	8,474,000	598,670,750	598,670,750	396,674,222	716,528,993	330,693,306	-	-
7) TIME LOAN - ST - REMCH/MOTHS	58,220,643	176,800,000	198,060,556	9,437,641	9,437,641	10,402,310	66,238,532	900,000	-	-
8) TIME LOAN - MT - CLEAN	2,189,248,226	176,800,000	198,060,556	9,437,641	9,437,641	10,402,310	66,238,532	900,000	-	-
9) TIME LOAN - MT - HOLD-OUT DEP	126,000	4,650,000	248,513,985	4,170,000	4,170,000	3,270,000	-	-	-	-
10) TIME LOAN - MT - REMCH/MOTHS	248,513,985	3,270,000	4,170,000	4,170,000	4,170,000	-	-	-	-	-
11) TIME LOAN - LT - HOLD-OUT DEP	4,170,000	3,270,000	4,170,000	4,170,000	4,170,000	-	-	-	-	-
12) TIME LOAN - MORTGAGE MGR	186,857,273	11,812	186,857,273	11,812	11,812	-	-	186,857,273	-	-
13) TL-DREAM LOAN-CASHBACK	11,812	11,812	11,812	11,812	11,812	-	-	11,812	-	-
14) TIME LOAN - LT - REMCH/MOTHS	218,455,763	49,640,854	85,338,943	15,571,686	15,571,686	-	4,508,550	63,394,729	-	-
15) TIME LOAN - DREAM HOME LOAN	2,156,499	-	-	-	-	-	-	2,156,499	-	-
16) L & D - DOSRI - BD - HOLD-OUT DEP	523,753	-	523,753	-	-	-	-	-	-	-
17) L & D - DOSRI - BD - REG - RMC/MOT	116,667	-	116,667	-	-	-	-	116,667	-	-
18) L & D - OFFICERS - HOUSING LOAN	3,412,791	-	3,412,791	-	-	-	-	3,412,791	-	-
19) L & D - OFFICERS - CAR LOAN	11,051,535	280,000	1,032,284	1,231,570	1,231,570	1,081,479	1,724,715	1,688,076	-	-
20) L & D - OFFICERS - MULTI-PURP LN	4,218,668	50,000	242,745	1,015,465	1,015,465	1,214,940	3,392,775	4,023,026	10,401	-
21) L & D - OFFICERS - EMERGENCY LN	317,234	100,000	242,745	1,015,465	1,015,465	1,214,940	1,538,540	156,957	-	-
22) L & D - STAFF - MULTI-PURP LN	3,051,324	333,300	320,614	791,465	791,465	928,138	597,605	80,202	-	-
23) L & D - STAFF - EMERGENCY LN	83,318	694,862,149	2,276,595,802	1,322,053,819	1,322,053,819	7,875,000	43,748,989	34,797	-	-
24) L & D - FX - RES - CLEAN	5,132,636,770	7,875,000	1,249,500	262,920,000	262,920,000	1,575,000,000	1,496,250,000	787,500,000	-	-
25) L & D - FX - RES - CLEAN-OFFSHORE	3,071,250,000	-	-	-	-	-	-	296,625	-	-
26) L & D - FX - RES - HOLD-OUT DEP	263,216,625	44,787,002	44,787,002	-	-	-	-	2,062,502	-	-
27) L & D - FX - RES - REMCH/MOTHS	599,663	-	-	-	-	-	-	-	-	599,663
28) PAST DUE - MORTGAGE MGR	35,450,000	-	-	-	-	-	-	-	-	35,450,000
29) PD - L & D - DOM - BD - REG	84,414,165	-	-	-	-	-	-	-	-	84,414,165
30) PD - SALARY LOAN	14,718	-	-	-	-	-	-	-	-	14,718
31) PD-L&D-DRM-HME-CASHBACK	387,565	-	-	-	-	-	-	-	-	387,565
32) PD - L & D - DOM - TL - RE - HFC	16,740	-	-	-	-	-	-	-	-	16,740
33) PD - L & D - DOM - OFF & EMP	38,056,369	-	-	-	-	-	-	-	-	38,056,369
34) TL - SALARY LOANS - NDO/SRI	3,055,374,648	114,088,398	116,705,248	140,447,280	140,447,280	2,148,286	242,812,500	178,473,750	-	-
35) L & D - FX - RES - CLEAN-OFF TAX-EX	126,107,355	-	-	-	-	-	-	65,485,776	-	-
36) TL-MORT-MAXGSHBACK-20%	1,795,639,734	102,391,817	116,705,248	140,447,280	140,447,280	2,148,286	363,210,215	678,629,953	-	-
37) TL-MORT-TRADITIONAL	9,815,843	-	2,821,584	-	-	-	-	-	-	-
38) PD-TL-MORT-MAXGSHBACK-20%	4,576,461	-	-	-	-	-	-	-	-	4,576,461
39) PD-TL-MORT-TRADITIONAL	12,845,160	-	-	-	-	-	-	-	-	12,845,160
40) TL-MORT-DEVELOPER	2,213,430	-	-	-	-	-	-	-	-	2,213,430
41) TL-MORT-TRADITIONAL	217,410,037	-	-	-	-	-	-	-	-	217,410,037
42) NPL - PD - SALARY LOAN	40,339	-	-	-	-	-	-	4,248,416	-	-
43) NPL - PD - MORTGAGE MGR	1,786,686	-	-	-	-	-	-	-	-	1,786,686
44) NPL - PD-L&D-DRM-HME-CASHBACK	8,663,196	-	-	-	-	-	-	-	-	8,663,196
45) NPL - PD - TL-MORT-TRADITIONAL	14,120,672	-	-	-	-	-	-	-	-	14,120,672
46) NPL - PD - TL-MORT-TRADITIONAL	69,751,829	-	-	-	-	-	-	-	-	69,751,829
47) NPL - PD-L&D - DOM - BD-REG	193,885	-	-	-	-	-	-	-	-	193,885
48) NPL - PD-L&D - DOM - OFF & EMP	186,957,909	-	-	-	-	-	-	-	-	186,957,909
49) NPL - PD-L&D - DOM - TL-ST	1,511,186	-	-	-	-	-	-	-	-	1,511,186
50) NPL - PD-L&D - DOM - TL-ST	3,310,916	-	-	-	-	-	-	-	-	3,310,916
51) NPL-CUR-TIME LOAN-SALARY LOAN	600,000	-	-	-	-	-	-	-	-	600,000
52) NPL-CUR-TIME LOAN - ST - CLEAN	50,400,702	-	-	-	-	-	-	-	-	50,400,702
53) NPL-CUR-TIME LOAN - ST - CLEAN	2,686,674	-	-	-	-	-	-	-	-	2,686,674
54) DBP - CLEAN - NDO/SRI	12,108,490	-	-	-	-	-	-	-	-	12,108,490
55) NPL-PD-REST-L&D-PL-PUBLIC	11,605,908	-	-	-	-	-	-	-	-	11,605,908
56) NPL-CURRENT-REST-L&D-PL-PUBLIC	1,365,000,000	-	-	-	-	-	-	-	-	1,365,000,000
57) RESTRUC LOANS - DOM - NDO/SRI	1,365,000,000	-	-	-	-	-	-	-	-	1,365,000,000
58) L&D-FX-RES-CLEAN-OFF-TAX-EX	31,788,702,764	5,701,114,069	4,812,053,011	4,204,415,710	4,204,415,710	8,686,429,028	4,557,833,928	2,699,515,149	429,825,779	697,516,090
Subtotal	54,671,783	5,701,114,069	4,812,053,011	4,204,415,710	4,204,415,710	8,686,429,028	4,557,833,928	2,699,515,149	429,825,779	697,516,090
Add Unamortized Transaction cost	727,960,591	-	-	-	-	-	-	-	-	-
Less: Allow. For Doubtful Acct	31,115,813,957	5,701,114,069	4,812,053,011	4,204,415,710	4,204,415,710	8,686,429,028	4,557,833,928	2,699,515,149	429,825,779	697,516,090
Net Non - Trade Receivable	2,387,569,828	5,701,114,069	4,812,053,011	4,204,415,710	4,204,415,710	8,686,429,028	4,557,833,928	2,699,515,149	429,825,779	697,516,090
Accounts Receivables	202,122,156	-	-	-	-	-	-	-	-	-
Accrued Interest Receivables	2,589,691,994	-	-	-	-	-	-	-	-	-
Unquoted Debt Securities	33,774,034	-	-	-	-	-	-	-	-	-
Less: Allowance for impairment	2,555,917,950	-	-	-	-	-	-	-	-	-
Net Receivables (a + b)	36,851,023,774	-	-	-	-	-	-	-	-	-
Less: Unearned Interest and Discounts	4,512,759	-	-	-	-	-	-	-	-	-
Net Receivables	36,846,511,015	-	-	-	-	-	-	-	-	-

Notes: If the Company's collection period does not match with the above schedule and reason 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.





Shareholders' Meeting of June 22, 2017 was declared approved by the Chairman.

	Voted in Favor	Voted Against	Abstained
Number of Voted Shares	246,495,973	0	0
% of Voting Shares Present	100.00%	0.00%	0.00%

#### 4.0 CHAIRMAN'S ADDRESS

4.1 Mr. Jack Lee delivered the Chairman's address to the stockholders.

The highlights were as follows:

Global economic activity continued to firm up in 2017, with the United States, Eurozone and Japan posting solid growth in the last quarter of the year. Most emerging economies in Southeast Asia maintained their pace of economic expansion, while Mainland China's economic activity remained fundamentally strong and on track despite continued supply-side structural reforms and financial deleveraging.

Unfortunately, the same did not hold true in Taiwan where our parent bank CTBC Bank is based. Economic growth for the period remained slow, attributable in part to weak loan demand and narrowing interest margins that prevailed for most 2017. That said, the economy did post incremental, if slight, growth over the previous year.

Notwithstanding the sluggish economic environment, our parent bank outperformed itself in each of its various operations. Revenues and profitability for the year were record breaking, with net revenues registering at USD 3.15 billion, pre-tax income reaching USD 1.23 billion, and after-tax income at USD 1.01 billion. Compared to the results of business operations in 2016, net revenues increased by 7%, while pre-tax income increased by 27%. After-tax Return on Equity for the year was 11.27%, with pre-tax budget achievement rate of 113%.

Capping these excellent results for the year were the awards and recognition that our parent bank continued to receive from both domestic and international organizations. Among the many accolades and citations received by the Bank during the year were: "Taiwan's Best Bank" by both AsiaMoney and FinanceAsia, "Best Private Bank in Taiwan" by Euromoney, "Best Retail Bank in Taiwan" by the Asian Banker and "Top Taiwanese Bank" by Brand Finance's Global 500 survey of the world's top bank brands. For institutional banking services, the Bank was awarded as "Best Commodities Derivatives House, Taiwan" by The Asset and "Best Trade Finance Bank in Taiwan" by Global Finance. These feats further reaffirmed our parent bank's position as Taiwan's industry leader and Asia's differentiated player.

The Philippines, as a young and dynamic part of Asia, remained a significant factor in our plans to further deepen our reach in the region. Taking advantage of the country's robust economic growth and resilient banking system, we in CTBC Bank Philippines remained focused on creating a stable platform for sustainable growth and profitability. In 2017, we implemented measures to bolster our retail and corporate loan portfolio as well as support our Institutional Banking Group's initiatives to grow its middle market business. In Treasury, we continued to focus on the expansion of client base revenues for both corporate and retail market, while in Retail Banking we took steps to strengthen our position in both unsecured and mortgage lending.

As we move forward to face new challenges and opportunities, we remain grateful to our Parent Bank for its strong support, our Board of Directors for their guidance, our officers and staff for their perseverance and hard work, and most especially our clients and shareholders for their continued trust and confidence in our Bank. Together "as family", we can look forward to another beneficial year ahead of us.

Thank you very much and good morning to you all.

## **5.0 PRESIDENT'S REPORT AND APPROVAL OF THE 2017 ANNUAL REPORT**

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

The highlights of his report are as follows:

2017 was a year of change both in the political landscape and in the global economic scene. Amidst the trade tensions between China and the United States and the turmoil in Mindanao, the Philippine economy still grew by 6.7%. With this, the Philippines remained among the fastest growing economies in Asia.

For CTBC Bank Philippines, it was a banner year. The Bank posted an After Tax Income of 288 Million Pesos, the highest in the past five years. It also represented a 35% jump from last year's level of 213 Million Pesos. The Bank's Net Interest Income registered a double digit growth of 12% on the back of strong performance in Loans and Receivables, which surged by 22%.

Meanwhile, the Bank's Total Assets reached an unprecedented level of 40 Billion Pesos. As our total loans expanded to 28 Billion Pesos, we are also steadily building up our investment portfolio, creating a balanced source of revenue flow.

Indeed, 2017 proved to be an exciting year, but not as exciting as the years to come. With the government's thrust to improve the country's infrastructure in its "Build Build Build" strategy, private and public consumption are sure to rise. As it happens, we will be ready to embrace the opportunities that these will bring, as we continuously expand our reach with our innovative product offerings, enhanced distribution

channels and digital platform.

Truly, we can look forward to an even better and brighter future. With a dedicated management team and unwavering support from our Parent Bank, we remain steadfast to reach our goals towards becoming the country's bank of choice.

Maraming salamat po!

- 5.2 The President then submitted for approval by the stockholders the Bank's 2017 annual report. Copies were made available to the shareholders.

Upon motion duly made and seconded, and there being no objection, the Chairman declared the 2017 Annual Report to the shareholders approved.

	Voted in Favor	Voted Against	Abstained
Number of Voted Shares	246,495,973	0	0
% of Voting Shares Present	100.00%	0.00%	0.00%

## **6.0 SUBMISSION OF THE AUDITED FINANCIAL STATEMENTS OF THE BANK AND OF THE TRUST AND INVESTMENT SERVICES DEPARTMENT AS OF DECEMBER 31, 2017**

- 6.1 The Audited Financial Statements of the Bank and of the Trust and Investment Services Department as of 31 December 2017 was then submitted for the approval of the stockholders.

Upon motion made and duly seconded and there being no objection, the Chairman declared the Audited Financial Statements of the Bank and of the Trust and Investment Services Department as of 31 December 2017 approved.

	Voted in Favor	Voted Against	Abstained
Number of Voted Shares	246,495,973	0	0
% of Voting Shares Present	100.00%	0.00%	0.00%

## **7.0 APPROVAL RATIFICATION OF THE ACTS, DECISIONS AND PROCEEDINGS OF THE BOARD OF DIRECTORS, COMMITTEES, MANAGEMENT AND OFFICERS SINCE LAST ANNUAL MEETING**

- 7.1 Upon motion of duly made and seconded, and there being no objection, the Chairman declared all the acts, decisions and proceedings of the Board of Directors, Committees, Management and Officers for the year

2017-2018 and since the last annual meeting, ratified.

	Voted in Favor	Voted Against	Abstained
Number of Voted Shares	246,495,973	0	0
% of Voting Shares Present	100.00%	0.00%	0.00%

## 8.0 APPROVAL OF THE FOLLOWING AMENDMENTS TO THE ARTICLES OF INCORPORATION AND BY-LAWS

- 8.1 Atty. Elbinias presented the amendments to the Articles of Incorporation and By-Laws, previously approved by the Board of Directors in its meeting last March 8, 2018, for ratification of the shareholders.

Atty. Elbinias explained that the Bank has to comply with relevant BSP issuances. The BSP issued Circular 969 Series of 2017 which effectively requires that the Chairpersons of the Bank's three (3) committees, the Audit Committee, Nomination Remuneration and Governance Committee, and the Risk Management Committee, should be Independent Directors with the restriction that the chairpersons of two (2) committees, the Audit Committee, and the Nomination Remuneration and Governance Committee should not be chairpersons of any other committee, nor of the Board. The composition of the said committees were also revised.

To comply with BSP Circular 969, the Board of Directors in its meeting held last March 8, 2018 approved the amendment to the Articles of Incorporation and By laws that will: i.) increase the number of directors from 7 to 8 so that an additional independent director may be elected considering that the Bank currently has only two (2) independent directors, and ii.) revise the composition of the Audit Committee and the Nomination, Remuneration and Governance Committee.

Upon motion made and duly seconded, and there being no objection, the following resolutions was approved.

### A. AMENDMENT TO ARTICLE SIXTH OF THE ARTICLES OF INCORPORATION

Increase in the number of Directors. THUS:

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

**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:

### B. AMENDMENTS TO THE BY-LAWS

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

Increase in the number of Directors. THUS:

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

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.

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

To comply with Subsection X144.1a. of the Circular, the following sentence will be inserted between the first and second sentences of the first paragraph of Section 2: “All members shall be non-executive directors, majority of whom shall be independent directors, including the Chairman.”

The rest of the provisions will remain. THUS:

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

“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

To comply with Subsection X144.3 a. of the Circular, the following sentence will be inserted between the first and second sentences of the first paragraph of Article V. Section 2. “All members shall be non-executive directors, majority of whom shall be independent directors, including the Chairman”.

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 will remain. THUS:

**“RESOLVED**, that Article V, Section 4 of the Bank's By-Laws is

hereby amended, to read as follows:

Section 4. Nomination, Remuneration and Governance Committee. – 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”). **All members shall be non-executive directors, majority of whom shall be independent directors, including the Chairman.** 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

**C. Delegation of Authority to the Board**

“**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.”

	Voted in Favor	Voted Against	Abstained
Number of Voted Shares	246,495,973	0	0
% of Voting Shares Present	100.00%	0.00%	0.00%

**9.0 ELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS**

9.1 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
- Huang Chih-Chung a.k.a. C.C. Huang
- Nick Huang
- 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.

	Voted in Favor	Voted Against	Abstained
Number of Voted Shares	246,495,973	0	0
% of Voting Shares Present	100.00%	0.00%	0.00%

## 10.0 ELECTION OF ADDITIONAL INDEPENDENT DIRECTOR

- 10.1 Upon motion made and duly seconded, and there being no objection, the Chairman declared Mr. Alexander Patricio as additional independent director.

The motion having been made and seconded, Mr. Alexander Patricio shall assume his post as additional independent director after BSP and SEC approval of the amendments to the Articles of Incorporation and By Laws and upon confirmation by the Board of the date on which he shall assume the post.

	Voted in Favor	Voted Against	Abstained
Number of Voted Shares	246,495,973	0	0
% of Voting Shares Present	100.00%	0.00%	0.00%

## 11.0 CONFIRMATION OF RELATED PARTY TRANSACTION/S

- 11.1 Upon motion made and duly seconded, and there being no objection, the Chairman declared the credit facilities 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.

	Voted in Favor	Voted Against	Abstained
Number of Voted Shares	246,495,973	0	0
% of Voting Shares Present	100.00%	0.00%	0.00%

## 12.0 APPOINTMENT OF EXTERNAL AUDITOR

- 11.1 Upon motion made and duly seconded, and there being no objection, the Chairman declared the accounting firm of R.G. Manabat and Co.

("RGM") duly appointed external auditor of the Bank and of the Trust and Investment Services Department.

	Voted in Favor	Voted Against	Abstained
Number of Voted Shares	246,495,973	0	0
% of Voting Shares Present	100.00%	0.00%	0.00%

### 13.0 ADJOURNMENT

13.1 The Chairman asked if there were questions or matters that the shareholders would like to raise or be considered. No questions nor other matters were raised by the shareholders. Upon motion made and seconded, the meeting was adjourned.

**ATTY. MARITESS P. ELBINIAS**  
Assistant Corporate Secretary

**ZIMAR B. MENDIOLA**  
2<sup>nd</sup> Assistant Corporate Secretary



# ANNEX “H”

## PROPOSED SHAREHOLDERS’ RESOLUTIONS TO APPROVE THE AMENDMENTS TO THE ARTICLES OF INCORPORATION

In view of the Capital Build Up Program, it will be proposed during the meeting that Article Seventh of the Bank’s Articles of Incorporation shall have to be amended to increase the Bank’s authorized capital stock.

### 1. Amendment to Article Seventh of the Articles of Incorporation

“**RESOLVED**, that the Corporation increase its authorized capital stock by ONE BILLION PESOS (Php1,000,000,000.00), and for this purpose Article Seventh of the Amended Articles of Incorporation of the Corporation shall be amended to read as follows:

**FROM** : **SEVENTH:** That the capital stock of the Bank is THREE BILLION PESOS (P 3,000,000,000.00) and said capital stock is divided into Three Hundred Million (300,000,000) Common Stock with a par value of Ten Pesos (P 10.00) each.

**TO** : **SEVENTH:** That the capital stock of the Bank is FOUR BILLION PESOS (P4,000,000,000.00) and said capital stock is divided into Four Hundred Million (400,000,000) Common Stock with a par value of Ten Pesos (P10.00) each;

**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 No. 854 Series of 2014, 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.”

### 2. Resolutions in connection with the Capital Build Up Program and Amendment to the Articles of Incorporation:

“**RESOLVED**, that the Corporation approves as it hereby approves the reissuance of Four Hundred Eighty Four Thousand Nine Hundred Twenty (484,920) Treasury Shares and the subscription to Fifty Two Million Thirty One Thousand Two Hundred Sixty Nine (52,031,269) unissued Common Shares, at an issue price of Twenty Nine Pesos and Seven Hundred Fifty Five Centavos (Php29.755) per share;

**RESOLVED, FURTHER**, that, subject to the approval by the Securities and Exchange Commission of the Corporation’s application for the increase in authorized capital stock by amending Article Seventh of the Articles of Incorporation, the Corporation authorizes as it hereby authorizes the issuance of Forty Eight Million Three Hundred Seven Thousand Two Hundred And Two (48,307,202) Common Shares from the increase in authorized capital stock, at an issue price of Twenty Nine Pesos and Seven Hundred Fifty Five Centavos (Php29.755) per share:

**RESOLVED, FURTHER**, that the Corporation issue all the afore-described Shares to **CTBC Bank Co. Ltd.** at Twenty Nine Pesos and Seven Hundred Fifty Five Centavos (Php29.755) per share.

**RESOLVED, FURTHER**, that the total subscription price for the Shares shall be fully paid by **CTBC Bank Co. Ltd** not later than October 14, 2019.

**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 No. 854 Series of 2014, 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.”